The Politics of the Housing Crisis

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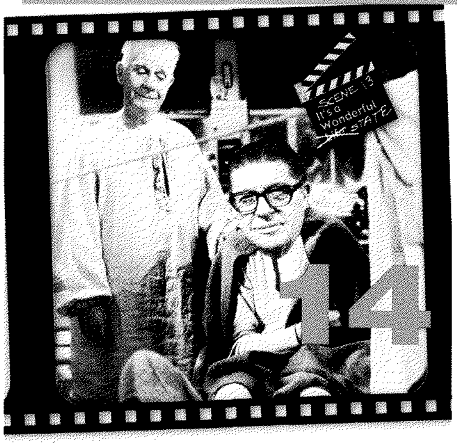
By Hank Sims



The silver anniversary of Proposition 13

California was changed forever when Proposition 13 passed a quarter of a century ago this month. Since then, Californians have gone on an initiative binge that has further altered the state's landscape. **By Peter Schrag**

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With California's huge budget deficit, Sacramento politicians are talking about taking property taxes from redevelopment agencies to bolster school funding. The locals aren't happy.
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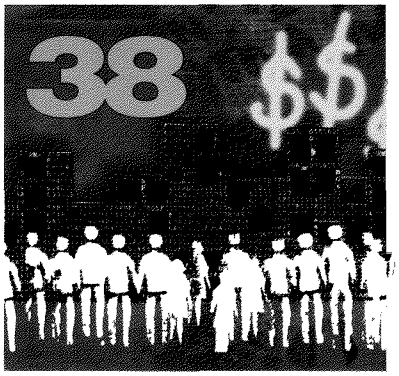


This old housing crisis

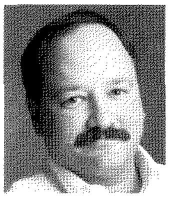
In California, there are too many people and not enough places to live. State lawmakers want to change this, but they're battling entrenched interests that are not likely to budge — at least not this year.
By William Fulton and Paul Shigley

Cover photo: Howard Jarvis, 5/16/79
AP Wideworld Photos

California dreamin'

In the 1946 movie classic "It's a Wonderful Life," George Bailey (played by James Stewart) is unimpressed with his mundane life as a small-town banker and a middle-class father. Then a guardian angel allows him to see what his town would be like if he had never been born. One lesson is that the true impact of a life cannot be measured by social categories. In a similar way, the true impact of Proposition 13 will never be measured by financial analysis alone. We can only imagine what California would be like if Proposition 13 was never passed 25 years ago this month. Without a guardian angel, how do you measure the social impact of neighborhoods that include old people because they were not forced out of their homes or, on the other hand, how some of today's adults are different because budget cuts forced their schools to cut music or sports programs a generation ago. What we do know, is that California is a much different place today because of Howard Jarvis and Proposition 13.

David Lesher



Political potpourri. The effort to recall Gov. Davis is the best water-cooler talk in Sacramento. The latest conversation starter is about Sen. Dianne Feinstein appearing on a recall ballot — if it qualifies with nearly 1 million signatures by Sept. 2. Talk from her friends goes like this: Feinstein is a giant among today's mini-politicians and a cinch to win a recall ballot, foiling the Republicans trying to benefit from Davis' ouster. ... The recall effort got a boost when U.S. Rep. Darrell Issa put $100,000 of his own money into a committee to recall Davis and opened an exploratory campaign for California's top job. Officially the San Diego-area Republican opened the account for 2006, but opening it enables him to start raising money immediately. ... Republican U.S. Rep. Doug Ose shocked California politicos with his announcement that not only would he not run for Senate against Democratic incumbent Barbara Boxer as expected, but also that he would retire from Congress altogether. So far, Los Altos Hills Mayor Toni Casey is the only announced GOP challenger to Boxer. That leaves Ose's congressional seat wide open for battle. Former Attorney General Dan Lungren is taking a hard look at running for the seat. If he does, he'll run against state Sen. Thomas "Rico" Oller.

Scrapping the "Zev" mandate. When the California Air Resources Board took aim at tailpipe exhaust in 1990 by ordering automakers to gradually make more zero-emission vehicles, the regulators had no idea how scientists and engineers would produce millions of pollution-free cars every year — they just wanted it done. Easy, right? Well, no. Carmakers were unable to create a zero-emission vehicle that could compete with regular gas-powered cars. So the board has come back to emissions by scrapping the mandate and instead focusing its efforts on promoting hybrid vehicles — cars that use gas and electricity. The new rules say that by 2010 carmakers should be selling 125,000 hybrids annually. By backing hybrids, the board found, California can focus on technologies that are working now, and then move more deliberately to the goal of ending tailpipe exhaust altogether. 🏛

Bush to Davis: Go Away

President Bush on the USS Abraham Lincoln in May. Gov. Gray Davis requested a meeting with Bush while the president was in California but was rebuffed.

Photo: Kevin Lamarque, Reuters 5/2/03

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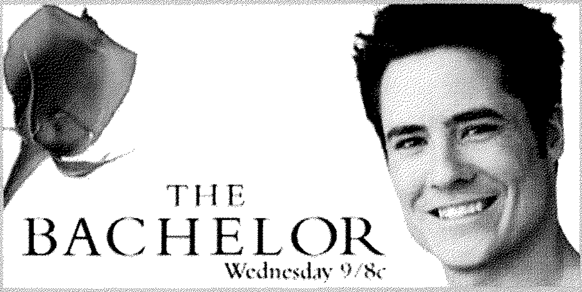
Pop culture:

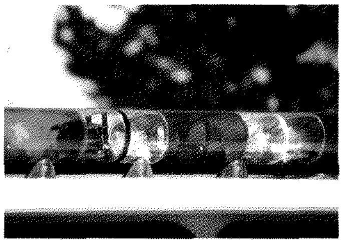
That old Firestone magic



Like millions of Americans, we couldn't help but watch the latest installment of ABC's "The Bachelor" this season. For the uninitiated, The Bachelor is a reality game show in which a guy-contestant goes on a series of dates with a slew of young women contestants. Every week the guy eliminates the women he doesn't gel with until the last one is standing. The Cal Channel it isn't. But we watched not so much because we were anxiously anticipating who Firestone scion Andrew Firestone would select as his new bride — it was Jen, by the way — but because Firestone is the son of former GOP Assm. Brooks Firestone, who owns and operates a winery in the Santa Ynez Valley. Brooks, who logged a significant amount of screen time when Andrew brought the final two home to meet the parents, expertly played the role of bemused father. Maybe it's time for his close up.

Speed:

Californians can't drive 55



California is well known around the world for its car culture. From the old Beach Boys racing tunes, to the regular cruise nights in different towns up and down the state, Californians are known to love their cars. And according to the California Highway Patrol, they like to go fast in them — more than ever. The CHP told the *Los Angeles Times* that the number of tickets issued for speeding in excess of 100 mph has tripled in 10 years. In 1992, 5,290 drivers received tickets for going over 100 mph, compared with over 15,000 in 2002. The CHP says that the Inland Empire is particularly speed crazy — the numbers there have more than quadrupled over the past decade.

Lobby Rankings:

State	Lobby Expenses 2002	# of Lobbyists	# of Employers
California	$197,230,234	1,012	2,359
New York	$92,000,000	3,332	1,835
Massachusetts	$53,739,651	650	1,000
Minnesota	$41,308,993	1,490	1,219
Washington	$33,192,837	1,000	1,000

Source: Center for Public Integrity

Personal file:

The guv gets loose

When the notoriously stiff Gov. Gray Davis recently gave a couple of interviews to California radio stations, he opened up and humanized himself … a little. Davis told the stations that broccoli is his favorite food; "CSI" is his favorite TV show; that he prefers Big Macs over Whoppers; and the Stairmaster over treadmills and barbells. He also said that his most annoying trait — according to his wife — is that "sometimes I tune out." And when asked which band he liked better — the Rolling Stones or the Beatles — Davis picked the Stones. The thought of Davis dancing around his study with a Mick Jagger swagger to "Honky Tonk Women," seems a little, well, weird, and it got us thinking of what kind of impression he'd make if he showed up at a Stones concert and no one knew he was governor. One word, dude: narc.

Quotables....

"It's like a dry forest — as long as nobody drops a match it'll be fine."

— An anonymous Democratic consultant on the effort to recall Gov. Gray Davis

Some see forest, some see trees

The state forestry department wants it both ways — a beautiful redwood forest that produces millions of dollars of timber. Its scientists have tested logging methods at Jackson State Demonstration Forest ever since California purchased it 56 years ago. Now, protesters want the state out of the tree-cutting business.

By Hank Sims

Back in April, environmental activists from the Bay Area and the North Coast descended on the Mendocino County town of Willits to protest the resumption of commercial logging in the Jackson State Forest, the crown jewel of California's forest reserve. That same day, state authorities were preparing to put two areas of the forest out to bid, and private lumber companies were competing for rights to harvest the trees. Bill Heil, a Mendocino County resident and a member of the Campaign to Restore Jackson State Redwood Forest, a local advocacy group, spoke out against the sale and the California Department of Forestry's management of the forest.

Photo on the left from the Jackson State Forest is an example of an age managed growth area. The photo on this page is one of the areas planned for cutting.
Photos: Hank Sims

"The CDF continues to manage Jackson State as if it were industrial forest land," Heil told demonstrators, according to a press release published after the event. "It is time for CDF to abandon the industrial forest management model in Jackson State and begin to demonstrate modern methods of management that place higher consideration on ecological and social issues and less on short-term economic gain."

The two sales of Jackson State timber held so far this year — in areas of the forest known as Brandon Gulch and Camp 3, amounting to about 900 acres — are expected to net the CDF about $6.8 million. Two to three other sales are also planned this year, which raises the question: Why does the State of California, which recently spent $130 million to preserve old-growth redwoods in Humboldt County's Headwaters Forest, allow logging — including types of clear-cutting — of redwoods on its own land?

> **"There's a lot we don't know about how to manage redwood forests."**
> **— Kevin O'Hara, UC Berkeley professor of forestry**

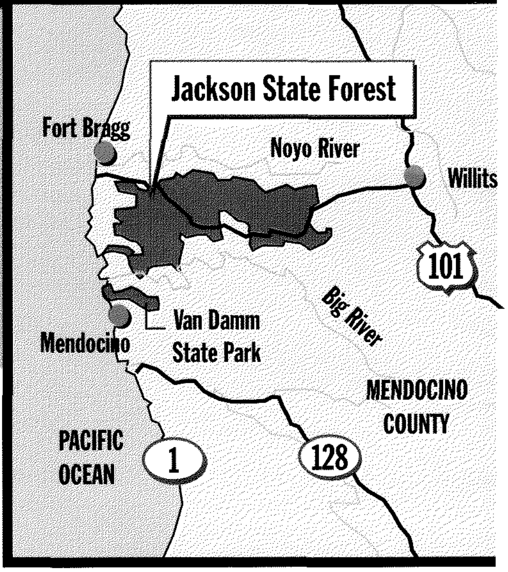
The answer is that Jackson State Forest is a noble, yet controversial experiment. Nearly 60 years ago, California bought its 50,000 scenic acres as a place for scientists to study logging techniques and search for methods that might satisfy commercial foresters and conservationists at the same time.

The recent protests and lawsuits suggest the goal may be impossible. Regardless of a benevolent intent, the state is still cutting through a magnificent display of nature where large stands of massive second-growth redwoods host burbling streams, stunning ocean vistas, scenic campgrounds — even a sizable contingent of spotted owls.

Scientists say, however, that the excellent quality of the forest today, even though almost all of it has been logged at various times over the last century, is evidence that their work has identified valuable lessons for the timber industry and environmentalists.

"There's a lot we don't know about how to manage redwood forests," said Kevin O'Hara, a professor of forestry at University of California, Berkeley. "Jackson is one of the few places in the redwood zone where that kind of research can be so freely performed."

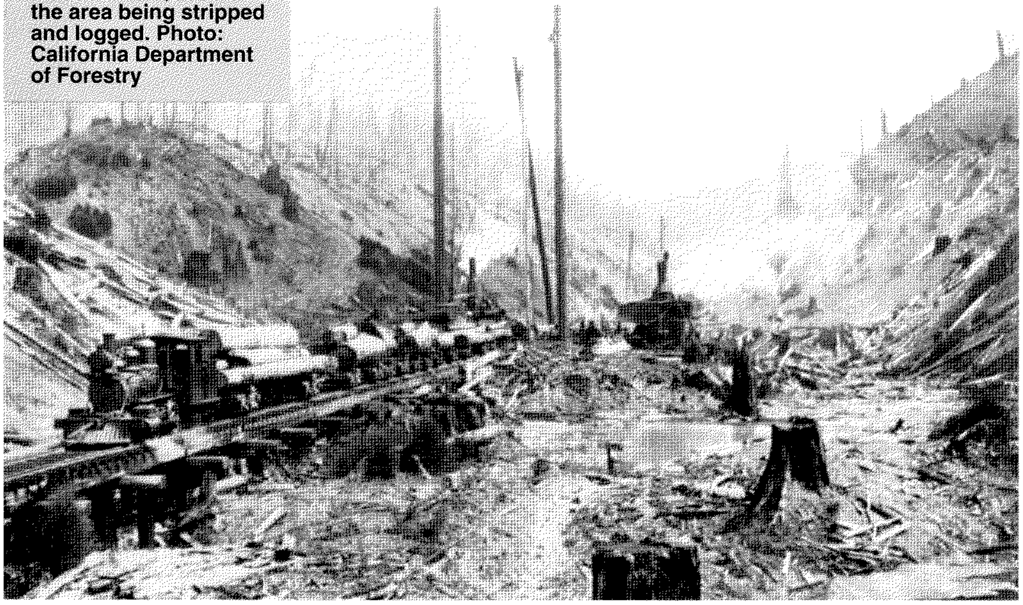
Logging in Jackson State is set to begin again this summer after a two-year hiatus, during which a lawsuit brought against the California Department of Forestry by the Campaign to Restore Jackson State Redwood Forest was heard and eventually settled. In the settlement agreement, the CDF agreed to prepare an updated management plan for the forest (the previous plan was almost 20 years old).



But, as the demonstration in Willits shows, the fight is far from over. The Forests Forever Foundation, a San Francisco-based environmental advocacy group that made its name during the fight to save Headwaters Forest, has made reform at Jackson State its top priority. It is proposing legislation that would all but eliminate logging in Jackson State. And together with the Campaign to Restore Jackson State Redwood Forest, it has brought a lawsuit challenging the adequacy of the environmental impact report associated with the CDF's new management plan.

Everyone agrees that, at a minimum, Jackson State is much healthier than the industrial timberland that surrounds it. On its website, the Forests Forever Foundation calls it an "ecological gem." Many, including some local environmentalists, go further. They say that Jackson State today is in infinitely better shape than it was when California acquired it from a timber company in 1947. Hans Burkhardt, an environmentalist and expert on forestry practices whose land overlooks a corner of Jackson State, cites independent research which shows that the volume of timber in the forest has more than doubled under the state's stewardship. CDF foresters say they only harvest one-half to two-thirds of the volume of timber grown in the forest each year.

Photo on the left and below show the same view of an area of the Jackson State Forest known as Road 36, the left is a current shot and the lower one, taken in 1925, shows the area being stripped and logged. Photo: California Department of Forestry



The Jackson State debate could mark a new wrinkle in the North Coast's timber wars, which have raged off and on for the last 15 years. Is preservation such an overwhelmingly important goal that well-managed redwood forests — forests that, while still producing lumber, have largely been allowed to recover from the depredations of early-20th century logging practices and largely spared from the worst of late-20th century methods — be taken out of service?

That was never the intention of Dr. Emanuel Fritz, professor of forestry at UC Berkeley and the father of California's state forest system. During World War II, Fritz, whose voluminous research on the species earned him the nickname "Mr. Redwood," was the state's most prominent and vocal proponent of the idea that the state should buy large quantities of timber land. He had two goals for this program: It would serve as a New Deal-style jobs program, and it would allow the state to correct, somewhat, its negligence of the logging industry. He feared a trend then current in California forests — logging companies would buy tracts of land, remove all the trees and then sell the land to cattle ranchers.

"The state must share responsibility for the condition of our cutover lands, largely because of its past lack of interest," Fritz wrote in 1942. "Now the job of regenerating old cutovers has become too big for private owners to handle on a wholesale scale. Consequently, it appears that if reforestation on a large scale is an early necessity, the state must do it itself. By purchasing the critical lands, it can also halt their conversion into doubtful stock ranges, and will have lands of its own for employing future jobless men."

By design, the state forest program would differ from California's existing state park program in that it would, with the cooperation of private industry, be used to promote and support the production of timber. The state forests would be "demonstration" forests, in that they would serve as a model of reforestation and sustainable forestry that Fritz hoped private landowners would follow.

The scope of Fritz's vision was never realized. He thought that the state should acquire 1 million acres of "cutover" land in 10 years, with many purchases secured before legions of able-bodied young men returned from war in Europe and the Pacific in search of employment. Though the Legislature appeared to have agreed with Fritz's plan, it was only able to cobble together a few major purchases, of which Jackson Demonstration State Forest was the third.

At 50,000 acres, Jackson State was by far the most significant purchase in the state forest program's history. Fritz had given the Jackson tract highest priority for acquisition. Today, it accounts for over two-thirds of the 71,000 acres in the state forest system (most timber producing states have far larger demonstration forest programs — Oregon and Idaho each have around 800,000 acres). In 1947, the state consummated the purchase of the Jackson State land from the Caspar Lumber Company for $1.5 million, with the company maintaining the right to log most of the land's remaining old growth redwood stands.

From the beginning, and in accordance with Fritz's design for the state forest program, the state sought to demonstrate that forests could be managed sustainably, meaning that they could go on producing timber forever. In the case of Jackson, the state sought to show that there would be a sustainable market for second-growth redwood trees, which grow well in the moist hills near the Mendocino coast. Second-growth redwood trees, which grow back after virgin forest has been cut, take about 50 years to reach a harvestable size. The language guiding this aspect of the program is still in the state code governing the forest today. The state, according to Public Resources Code section 4631.5(a) is supposed to "[r]etain the existing land base of state forests in timber production for research and demonstration purposes."

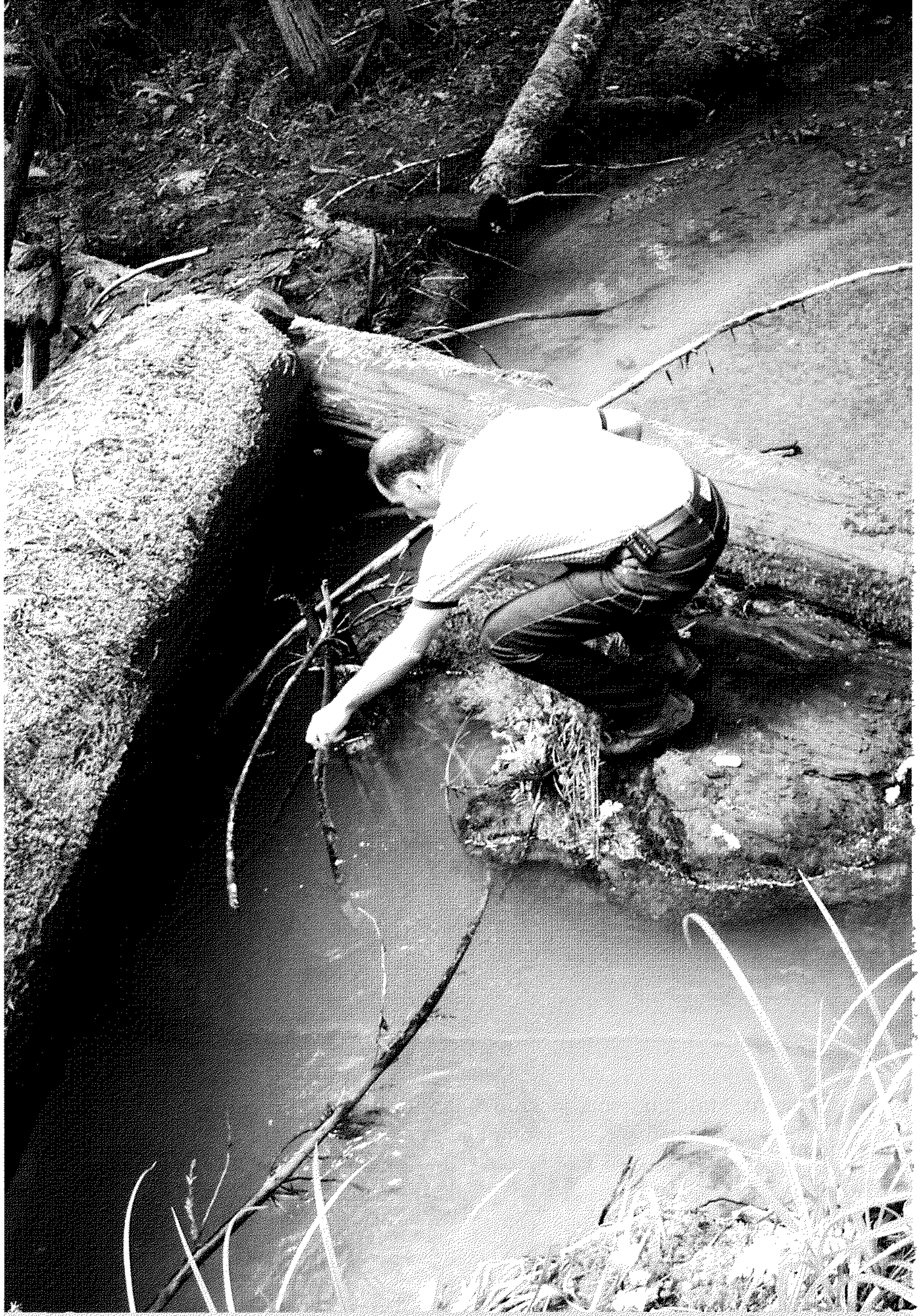
Today, of course, "sustainability" in the field of natural resources has different connotations than it did in 1947 — it takes into account not only the sustained volume of timber produced by a forest, but the ecological well-being of flora and fauna that inhabit it, as well as its geological stability.

Sitting at a café in the tourist village of Mendocino, Bill Heil described the goals of the Campaign to Restore Jackson State Redwood Forest. "The purpose of Jackson State, in the 1940's, was admirable," he says. "But of course, by the 1960's, there was no doubt that second-growth redwood would be a valuable product. Really, all you had to do was let it grow long enough before you cut it.

"Now it's time to change what the demonstration should be. It should remain a demonstration forest. The demonstration we need to have is something for the small landowners of the county and in California, who really want to protect their forest. They want things to be economical, but they really value the esthetic, the ecological, the biological aspects of the forest that have not really been studied that well."

Bill Baxter, a CDF forester who heads the Research, Education and Demonstration section of the Jackson State office, objects to this characterization of the management of Jackson State. Baxter eagerly points out lists of ongoing research at the forest, ranging from studies of the trees themselves to creeks, rats, butterflies and spotted owls. He says that Jackson State provides the scientific community with a unique laboratory for testing the effects of timber harvesting on the environment, including the wildlife.

O'Hara, a UC Berkeley forestry professor (and therefore one of Dr. Fritz's scientific heirs), is quick to support Baxter's claims. He is currently conducting several studies at Jackson State, including research on commercial thinning of trees and on Sudden Oak Death Syndrome. If the Jackson forest was not available, O'Hara said, scientists would have to rely on the cooperation of private businesses — and the resulting research would be markedly inferior.



Marc Jameson, who oversees the Jackson State Forest, is taking water samples from one fo the creeks. Photo: Hank Simms

"A timber company would say, sure, come on and do research on our property, but we're not going to want to try anything different than what we're doing," he said. "At Jackson there's the opportunity to come on and try and do things that might be better. That's a greater deal of flexibility that is really a great asset."

Heil, who owns and operates a portable sawmill, is disturbed that much of the scientific research that goes on at Jackson State is geared, he says, toward the "industrial timber model" — large-scale timber operations conducted by large corporations. The industrial timber model dominated timber operations in redwood country in the latter half of the 20th Century. The basic method employed by industry in that period was the large-scale clearcut, aided by heavy machinery.

Jackson State still practices varieties of clear-cutting in the state forest, but of smaller scale and with some retention of trees. These practices go by various names, including "even-age management" and "group selection." Heil vehemently argues against these practices, saying that small landowners — one of the most important sources of lumber, these days — would generally be loathe to use them, and that their ecological damage is not worth whatever research may develop from them. He singles out "group selection," whereby patches as large as two and a half acres may be removed from larger stands of forest, as particularly inappropriate.

"What you end up with is this situation where you've got big trees with an edge effect everywhere," Heil says. "What irks me a lot about that is that it's called 'selection,' where it could just as well be called mini-clearcutting.'"

When presented with this argument, Marc Jameson, Jackson State's head forester, first of all points out that both the Brandon Gulch and the Camp 3 sites, the protesters' immediate cause for concern, will be harvested using "individual selection" methods. Individual trees will be selected from a grove for harvest, leaving one out of every three trees standing. But he defends the use of "even-age" and "group selection" methods, which will be used on timber sales later this year.

"A significant number of landowners in the region want to manage on an even-age basis," Jameson says. "It's a viable method of producing wood and wood products. What we can do here is demonstrate some of those methods, and different methods that they don't practice yet, and study the effects over time."

Some of the trees in the Jackson forest sales this year will likely end up

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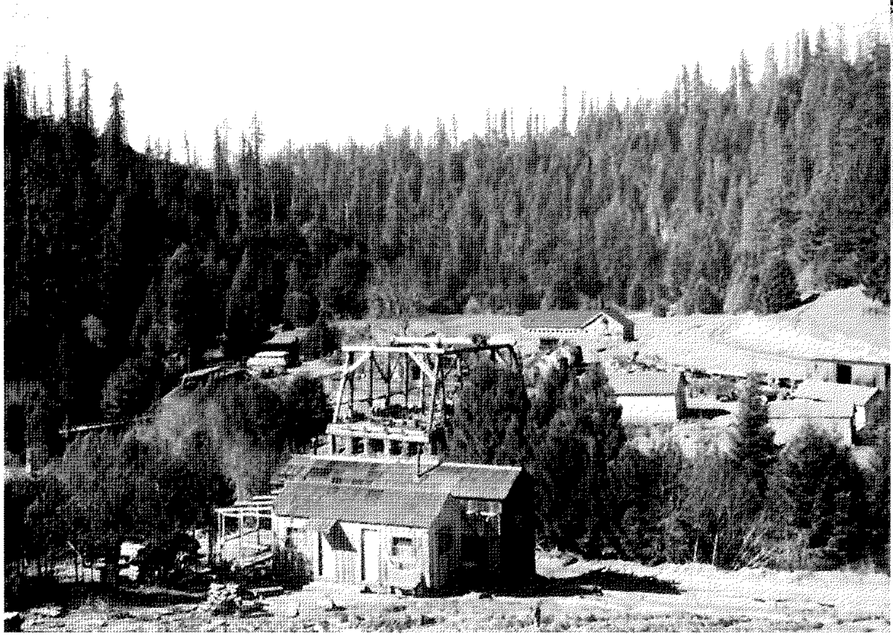
at the Harwood Products mill in the small northern Mendocino town of Branscomb. Founded in 1950 — three years after Jackson State Demonstration Forest was born — the Harwood mill has always been a small family-owned operation trying to survive in a county until recently dominated by large corporate concerns.

Art Harwood, the current president of Harwood Products and a member of the third generation of the Harwood family to run the mill, does not fit the stereotypical model of the Northern California timber man. He pines for the days when the state was run by Governor Jerry Brown, under whose leadership, he says, the California timber industry was the best it has ever been. With Bill Heil, he works with the Redwood Forest Foundation, which is trying to buy logged-over forest lands and put them into a community trust, where they would be harvested sustainably and in an ecologically sensitive manner.

Nevertheless, Harwood disagrees with much of what Heil has to say about Jackson State. He sees the forest as a model for what the Redwood Forest Foundation would like to do, and he takes umbrage at the most stringent criticism that has been leveled against it. "The CDF has not decimated Jackson State Forest," he says. "The fact is that it's the best-managed working forest in the state of California — probably one of the best-managed working forests in the United States."

"Now, there are things you could do differently. In the past, they've probably clear cut more than they need to. In their defense, they are doing studies on clear cutting, and it's very important to complete those studies. But it probably makes sense that they would look less and less to clear cutting over time."

"It's the best-managed working forest in the state of California."
— Art Harwood, Harwood Products

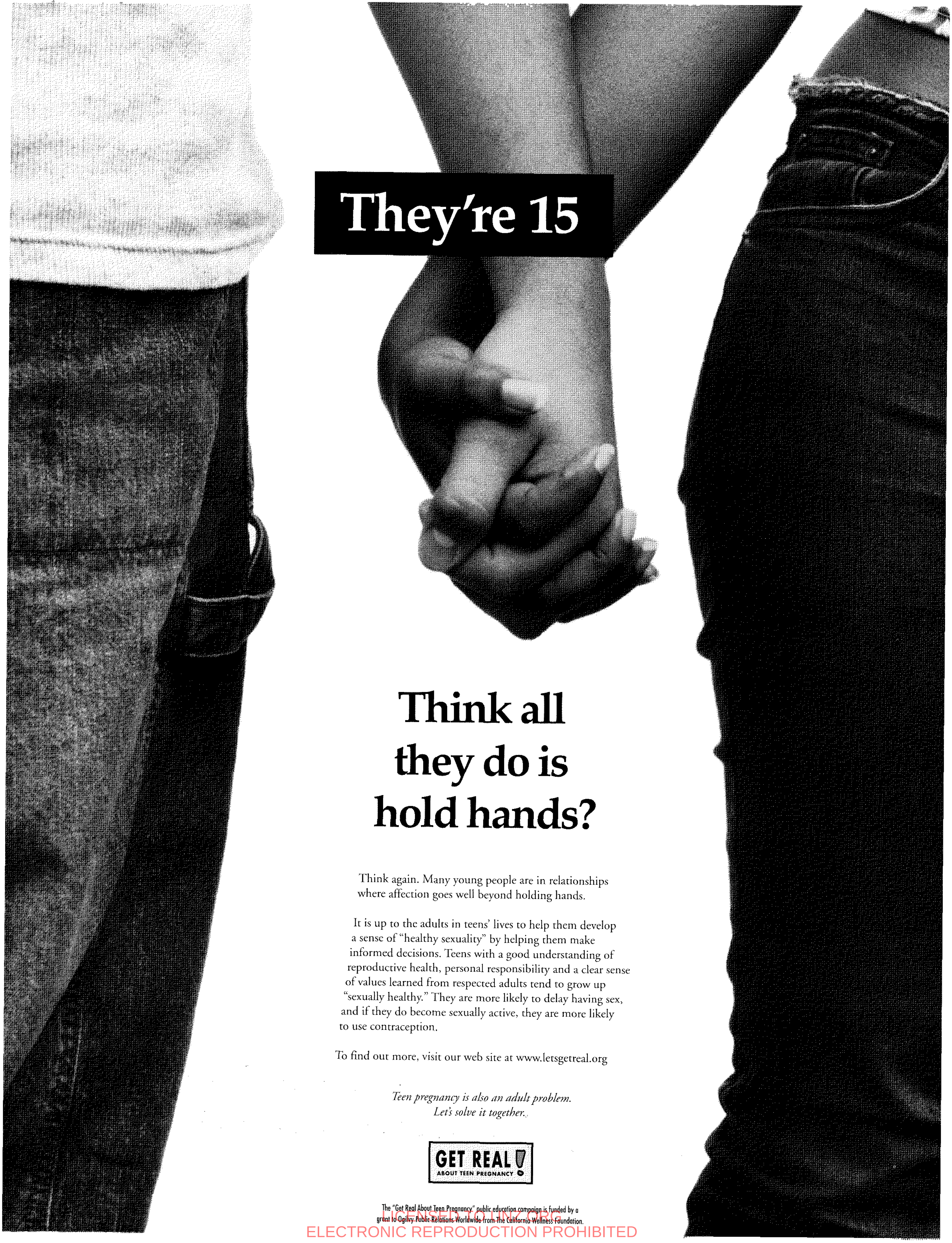


Another historical comparison to now and then in the area named Camp 20. The historical photo at the left from 1940 shows Camp 20 more built up than today. Photo: California Department of Forestry

In a way, the work of the still-nascent Redwood Forest Foundation could be considered a successor to Emanuel Fritz's program of state-owned forest. Both seek to prevent the trend for logged forests to be converted to other uses. In Fritz's time, the danger was cattle ranches; today, it is subdivision and development. Harwood says that Jackson State has been a model for demonstrating different ways to practice silviculture, work that can be built on with the hoped-for advent of community forestry.

And despite his criticisms, Heil admits that whether by design or by accident, Jackson State has mostly survived the worst of the era of industrial logging. "Jackson State is a wonderful resource," he says. "I'm very glad that CDF did not allow it to be cut — or didn't figure out how to cut it, whatever they did. But now it's there, and we need to deal with the situation as it exists now, not as it existed in 1940."

Hank Sims is a freelance writer in Trinidad, California. Comments may be sent to **comments@californiajournal.com**



They're 15

Think all they do is hold hands?

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WHAT IF JARVIS HAD NEVER BEEN BORN?

California would be much different if Proposition 13 did not pass a quarter century ago this month. Certainly government was changed, both structurally and financially. But was Proposition 13 also the mother of all initiatives, turning voters into California's new policy makers?

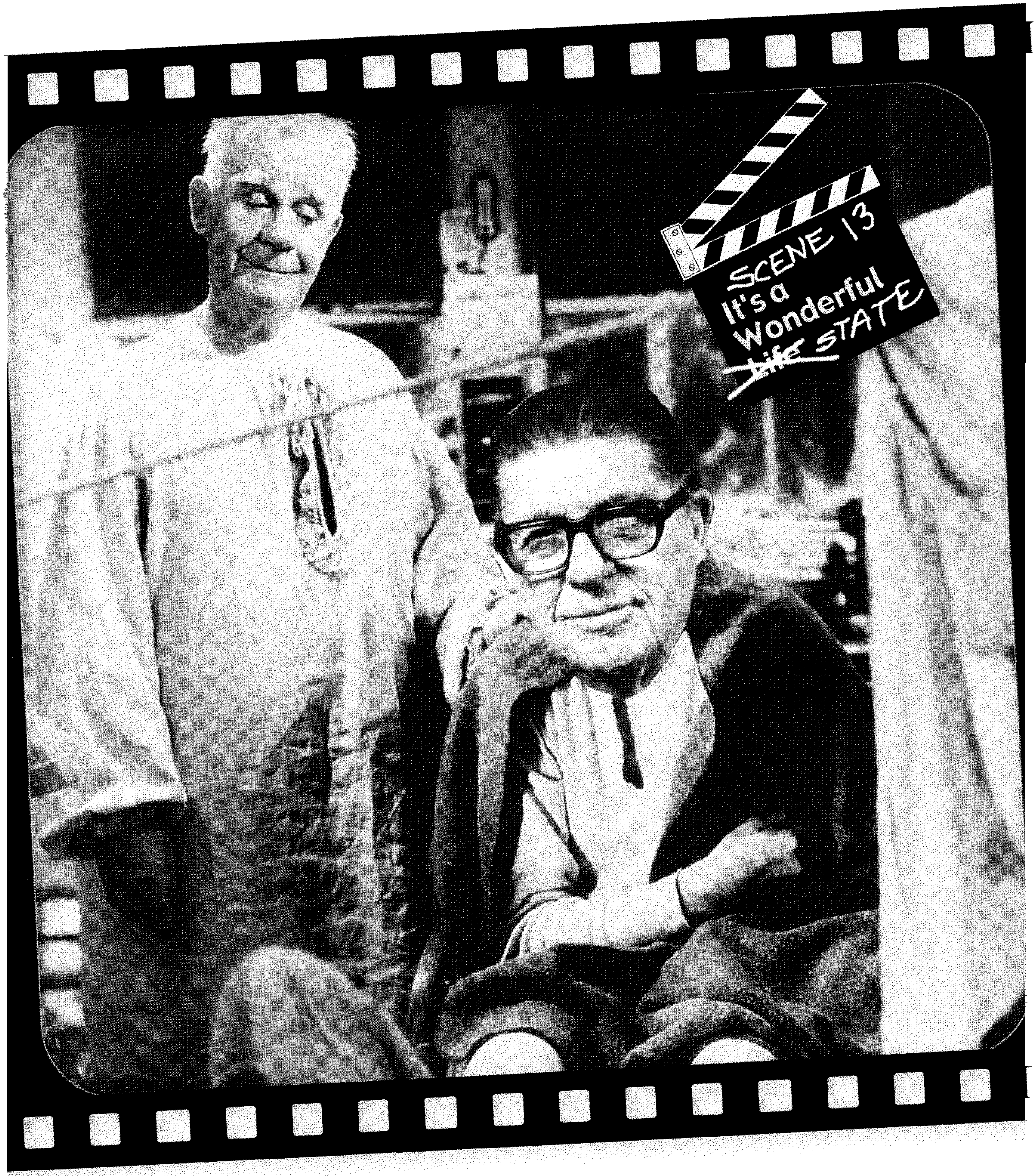
By Peter Schrag

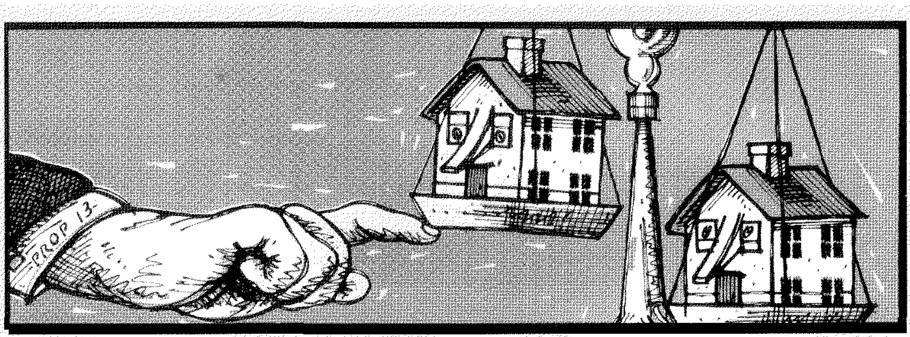
Twenty-five years on, it's virtually impossible to imagine California's public life without Proposition 13. Passed on June 6, 1978 by a margin of nearly two-to-one, the initiative cut local property taxes by nearly 60 percent, capped property tax rates at 1 percent and, except for an annual 2-percent inflation adjustment, prohibited all *reassessment of California property unless the property changed ownership.*

Overnight, California went from being a high-tax state to an average-tax state, with obvious consequences everywhere you looked. Overnight, Proposition 13 made the tax revolt a national issue, sent ripples through countless other states and gave President Ronald Reagan the refrain that marked much of his administration: Government is not the solution; government is the problem.

In dollar terms, the biggest immediate gainers of those sharp reductions were the major California corporations and other large property owners. But as Joel

PROPOSITION 13 25th ANNIVERSARY


SCENE 13
It's a
Wonderful
~~Life~~ STATE



From a *CJ,* 11/78 article on "Proposition 13: The Doctrine of Aquisition Value" dealing with the inequities of tax assessments under Proposition 13. Illustration by Donna Rivers.

Fox, who later headed the Howard Jarvis Taxpayers Association, the main driver of the Proposition 13 campaign, would say: For the first time, Proposition 13 made the property tax reliable for the taxpayer, not the tax collector. That meant particularly the small homeowners who'd been whacked by the huge increases driven by the inflationary run-up in property values of the late 1970s — many of them retirees who bought their homes in the immediate postwar years and who became the poster oldsters of the Proposition 13 campaign. Neither they nor their children and grandchildren — even those most conscious of the problems Proposition 13 generated — are likely to give up that reliability.

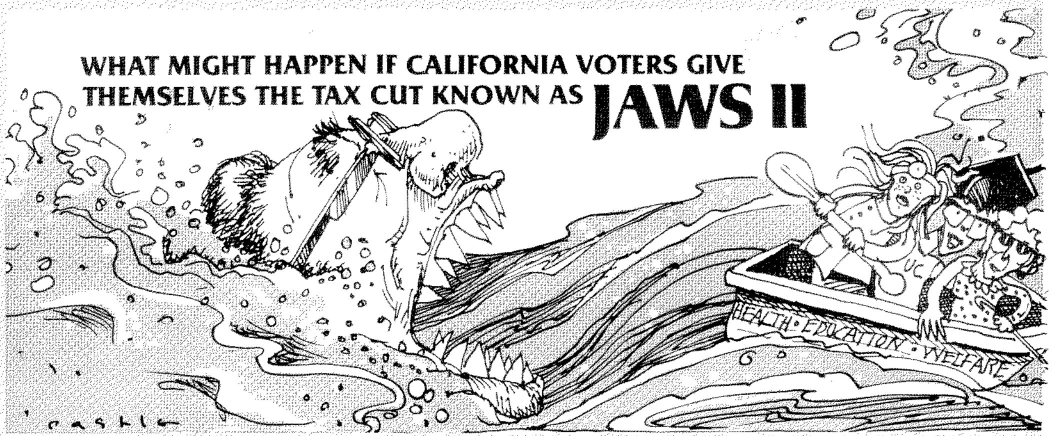
That's not to minimize the problems. While the state, which in 1978 had an "obscene surplus" of $5 billion (itself part of the argument in favor of the measure), was temporarily able to soften the blow with major bailouts, the impact on schools, counties, cities and a whole range of other agencies was swift and, in many cases, permanent. Yet ironically, in the view of people like Jean Ross, who runs the California Budget Project, the state's ability to minimize and hide the self-inflicted blow through much of the past generation may have kept voters from understanding how hard the Proposition 13 hit really was. State government, with its crippling inability to cope with the present budget deficit, is now suffering a voter blowback. And in the face of a pending recall, it may cost Governor Gray Davis his job.

In the late 1960s, to cite the most glaring example of Proposition 13's impact on public services, California was fifth among the states in what it spent per pupil in its public schools. In the mid-1990s, it had sunk to forty-first. It's now probably in the mid thirties, still spending less than the national average and far less than the other major industrial states — currently about $7,000 a year here compared to over $10,000 in places like New York and New Jersey. Whether California's low test scores are the consequence of its parsimonious funding is a matter of endless debate. But there's no question that even with class size reduction in the early grades, California's classes (before the latest recession) are still among the largest in the nation; many of its new teachers only marginally qualified; the ratio of counselors, nurses, librarians among the nation's worst; the condition of the schools among the shabbiest. Proposition 13 made the phrase "deferred maintenance" into a household phrase.

But with the perspective of a generation, it's clear now that the measure's biggest California impact was not on the state's public services — schools, libraries, universities, medical care, and, most particularly on the condition of California's heretofore exemplary roads and other infrastructure — huge though it was. It was the seismic shift in California's governmental structure, accountability and power: from local to state government; from representative democracy to direct democracy through the initiative process; from a communitarian ethic in how we paid for public services to a fee ethic, in which more and more services and facilities — new schools, park maintenance, university tuition — were charged to their users.

Proposition 13, as much as any single measure, became the model for what was subsequently called "the initiative industrial complex." Nine initiatives qualified for the ballot in the 1960s, 22 in the 1970s, 44 in the 1980s and 61 in the 1990s.

Collectively, they touched on virtually every major issue, from further tax and spending limits, affirmative action, public services for illegal aliens and legislative term limits, to major environmental and health policies, to school funding, criminal sentences, insurance regulation and the minimum wage. Together, they radically reshaped the state's public landscape. The initiative, created by the California Progressives in the first decade of the 20th Century as a check on a state government under the thumb of the Southern Pacific Railroad and other big interest groups, had become not an alternative but the very essence of major policy-making in California. In 1988, there was


WHAT MIGHT HAPPEN IF CALIFORNIA VOTERS GIVE THEMSELVES THE TAX CUT KNOWN AS JAWS II
UC
HEALTH·EDUCATION·WELFARE
castle

From a *CJ,* 3/80 on the what-ifs of Jaws II — Proposition 9. Illustration by Jan Castle

roughly the same amount spent on five insurance measures as George Bush spent on his presidential campaign. The same interests that were to be checked by the initiative, including the Southern Pacific itself, became major players in the process.

Joel Fox often complains, with some justification, that virtually every bad thing that's happened in California in the past 25 years — from homelessness to the Polly Klaas murder — has been blamed on Proposition 13. And obviously, most of the ballot measures approved by voters since 1978 can't be blamed on (or credited to) Howard Jarvis, the pugnacious septuagenarian who was the author of Proposition 13, or on his sometime partner, Paul Gann.

Proposition 13, in many instances, was as much the symbol of California's funk as its cause.

More important, the great wave of optimism of the post World War II generation — the wave that built universities, water systems, and freeways, and that made California a model for effective professional government and progressive social policies — had already begun to ebb. By the mid-1970s, pollution, congestion and the changing demographics brought by immigration combined with the Watts riot, the student revolt at Berkeley and other events to start the backlash that crested in the tax revolt. Proposition 13, in many instances, was as much the symbol of California's funk as its cause. But few people will deny that Proposition 13 and its progeny have tangled the lines of authority and accountability, making California's Rube Goldberg fiscal and policy incomprehensible to even the most diligent citizen. And after a 25-year orgy of ballot measures, that's often true even for the people who are supposed to run the state. Because every initiative, by definition, reduces the discretion of state and local officials and thus further reduces the ability of government to respond, it generates the pressure for still more initiatives, liberal and conservative. Because more than half the state budget is now allocated by constitutional formulas or other mandates, every fiscal crisis — including this year's — is exacerbated.

Because the local property tax has, in effect, become a state tax, local jurisdictions fight each other in pursuit of big retailers — auto malls and shopping malls — that generate the sales taxes that they hope will keep their cops on the street and their firehouses open. As a result, the planning that might generate balanced development of housing, good job-creating businesses and integrated communities, gives way to zero-sum beggar-thy-neighbor contests that effectively produce nothing.

Because the fiscal system is so impenetrable, city and county officials constantly get complaints about local problems — why isn't my street getting fixed; what are you doing with my property taxes? — over which they have only partial control. To make things simple, Proposition 13 gave the state authority to allocate the capped property tax among the various local claimants — cities, counties, schools, special districts — that had each set their own tax rate before its enactment. Proposition 98 (passed in 1988 and itself the indirect and unintended political result of Paul Gann's "Spirit of 13" spending limits initiative of 1979) allocates 40-plus percent of the state's general fund to schools. To comply in tight times, the state has grabbed large chunks of property tax money from the cities and counties and handed it to the schools.

Not surprisingly, there have been calls for reforming Proposition 13 almost from the day it was passed — from state and local officials, from business leaders, and from a string of commissions and various others. Some reforms have been enacted, like restoration of the authority for schools to issue facilities bonds with a two-thirds vote — later lowered to a 55 percent vote — of the local electorate. Concurrently, some provisions have been tightened; children and even grandchildren can now inherit homes without triggering a reassessment, thus creating what some have described as America's first landed nobility.

Among the most common elements in those proposed reforms — pushed for many years by Lenny Goldberg, a political consultant to labor and other liberal groups, has been the split roll: taxing commercial property on a different basis from other property by, for example, allowing for more frequent reassessment consistent with the real value of the property.

That wouldn't merely increase revenue in a deficit-ridden state; it would also level the playing field for commercial competitors where the new retailer paying taxes on the basis of his purchase price must compete with an older retailer paying taxes on the far lower assessments of a generation before. Equally important, it would encourage more efficient and productive use of commercial property that's now used for less than optimal enterprises or lies unused altogether.

Some reformers long expected that when enough newer homebuyers discovered the inequities, there'd be an uprising.

In the 1980s, Macy's pursued a lawsuit challenging Proposition 13 on precisely that ground — that it was a denial of equal protection that put the new enterprise at a disadvantage against the business that was paying far lower taxes on property of the same value. But before the suit could move to the Supreme Court, Macy's took so much heat from taxpayer groups — including the return of hundreds of shredded charge cards — that it dropped the suit.

The same inequities, of course, hit the new homeowner, who discovers that the owner of the identical house next door, who happened to buy his place in the 1970s or 1980s, and sometimes earlier, is paying a fourth and sometimes a tenth in property tax of what the new buyer is paying. (For full disclosure, our immediate neighbors' house, which is about twice the size of ours is assessed at one third of what ours is assessed for. But they've been there for 25 years; we've been here only six.)

About Initiatives

Voters who believe initiative process is a good thing

YES 69%

NO 23%

Decisions through the initiative process are better than decisions by the government and legislature

YES 56%

NO 24%

Source: Public Policy Institute of California survey, 2000

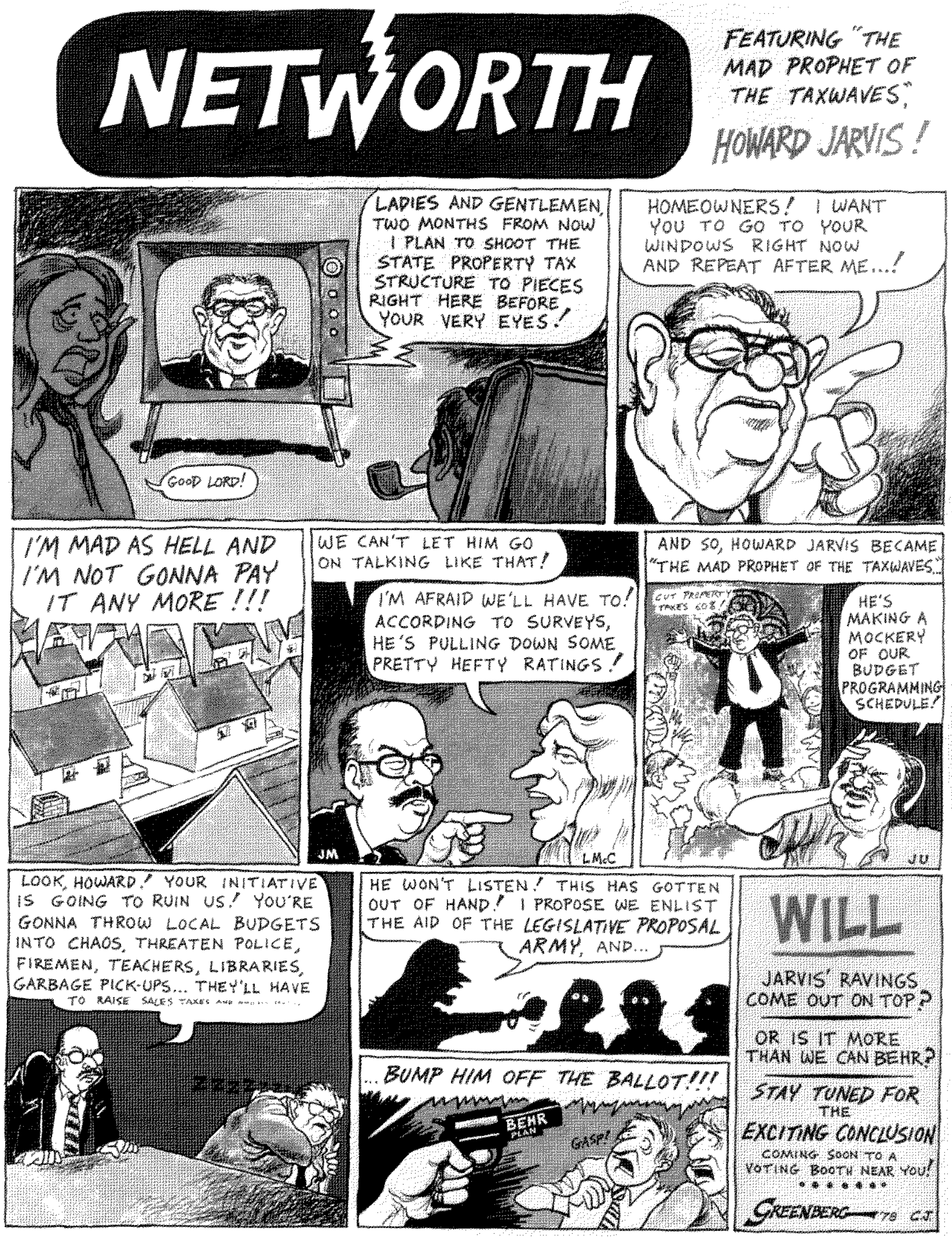
But the Supreme Court says there's no constitutional problem. In a suit brought by a Southern California lawyer named Stephanie Nordlinger, who was paying $1,701 in taxes on her home, as compared to neighbors in nearly identical homes, who were paying between $300 and $400, the court ruled (in 1992) that the state's legitimate interest in neighborhood preservation allows it to structure its tax system to "discourage the displacement of lower income families by the forces of gentrification or of mom-and-pop stores by newer chain operations."

And that, quite plainly, is what's happened. In the many Silicon Valley neighborhoods that were mansionized in the boom of the late 1990s, you can find good liberals — retired school teachers or social workers, who detest the effects of Proposition 13 on public services — who still live in homes they bought 40 years before for $15,000 or $20,000 that would now be worth 20 or 30 times as much for the land alone. Neighboring lots have been converted into million-dollar homes, and they thank their lucky stars for the protection that Proposition 13 — and the $150 or $200 annual property tax bill — provides them.

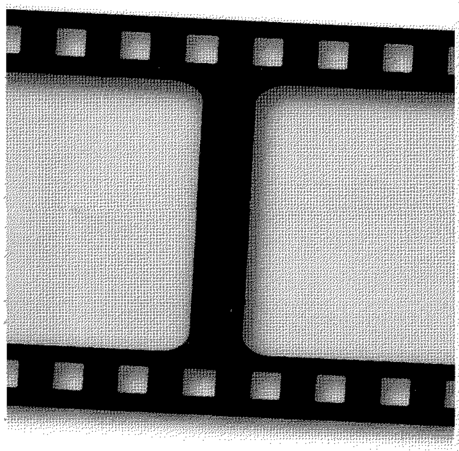
Some reformers long expected that when enough newer homebuyers discovered the inequities, there'd be an uprising. Obviously that hasn't happened — in part at least because, as Fox said, a lot of people, figuring that eventually they'd be the beneficiaries, are willing to accept the inequity to get the reliability.

But that doesn't apply to large commercial property, and particularly to public corporations the majority of whose legal "ownership," measured in stock trades, probably turns over every three years. Nor is it certain that voters might not accept a modest increase in the property tax rate — say from 1 percent to 1.2 percent — if the additional money were to be earmarked to services, like schools, that voters support and if Proposition 13's restrictions on reassessment remained in place.

This spring, the California Teachers Association (CTA) was privately polling on a number of proposals to raise revenues for California's recession-strapped schools (CTA


NETWORTH
FEATURING "THE MAD PROPHET OF THE TAXWAVES," HOWARD JARVIS!
LADIES AND GENTLEMEN, TWO MONTHS FROM NOW I PLAN TO SHOOT THE STATE PROPERTY TAX STRUCTURE TO PIECES RIGHT HERE BEFORE YOUR VERY EYES!
GOOD LORD!
HOMEOWNERS! I WANT YOU TO GO TO YOUR WINDOWS RIGHT NOW AND REPEAT AFTER ME...!
I'M MAD AS HELL AND I'M NOT GONNA PAY IT ANY MORE!!!
WE CAN'T LET HIM GO ON TALKING LIKE THAT!
I'M AFRAID WE'LL HAVE TO! ACCORDING TO SURVEYS, HE'S PULLING DOWN SOME PRETTY HEFTY RATINGS!
JM
LMcC
AND SO, HOWARD JARVIS BECAME "THE MAD PROPHET OF THE TAXWAVES."...
CUT PROPERTY TAXES 60%!
HE'S MAKING A MOCKERY OF OUR BUDGET PROGRAMMING SCHEDULE!
JU
LOOK, HOWARD! YOUR INITIATIVE IS GOING TO RUIN US! YOU'RE GONNA THROW LOCAL BUDGETS INTO CHAOS, THREATEN POLICE, FIREMEN, TEACHERS, LIBRARIES, GARBAGE PICK-UPS... THEY'LL HAVE TO RAISE SALES TAXES AND
ZZZZ
HE WON'T LISTEN! THIS HAS GOTTEN OUT OF HAND! I PROPOSE WE ENLIST THE AID OF THE LEGISLATIVE PROPOSAL ARMY, AND...
...BUMP HIM OFF THE BALLOT!!!
BEHR PLAN
GASP!
WILL JARVIS' RAVINGS COME OUT ON TOP?
OR IS IT MORE THAN WE CAN BEHR?
STAY TUNED FOR THE EXCITING CONCLUSION
COMING SOON TO A VOTING BOOTH NEAR YOU!
GREENBERG '78 CJ

From a *CJ*, 4/78 issue. Cartoon by Steve Greenberg



lobbyist John Hein neither acknowledged nor denied that the 1.2 percent option was one of them). A variety of other proposals have been floated, the most recent a bipartisan constitutional amendment sponsored by Assemblymen Darrell Steinberg of Sacramento, a Democrat, and John Campbell of Irvine, a Republican, that would swap some of the property tax that the state now controls for the sales taxes that go to local government. That, they hope, would reduce the mad, local pursuit of retailers and the resulting distortion in local planning priorities.

More important, a proposed Budget Accountability Act (BAA), an initiative sponsored by the Service Employees International Union (SEIU), and endorsed by the CTA and the League of Women Voters, was being readied for signature gathering. In an effort to end the annual budget games and fiscal deadlock in Sacramento, it would, among other things, lower the threshold to pass a state budget and raise state taxes from the present two-thirds majority of each legislative chamber to 55 percent. The budget provision has been in the California Constitution since the 1930s; the two-thirds vote threshold was written into the constitution by Proposition 13. (To block the measure, the state Chamber of Commerce is proposing its own counter-initiative).

But however much Proposition 13 is amended at the edges, no such change is likely to alter the general shape of the post-13 landscape. There can be few local officials left in California who've ever raised property taxes, and thus few who know what complete control and accountability can be like. And since local officials — school boards particularly — can no longer hit businesses with tax increases, the business community, which was once active in raising money and supporting candidates, is far less engaged in local elections than it was once was. As a result, public employee unions — the cops, the firefighters, and the CTA particularly — which have become the main sources of campaign cash, often dominate the local boards.

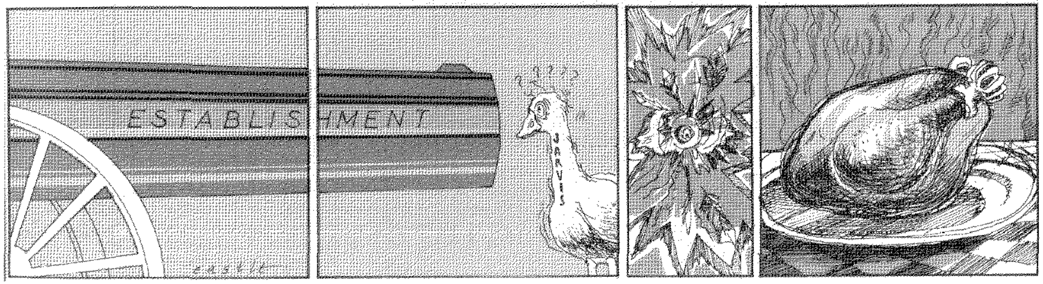
More fundamentally, the state seems to have accepted the mediocrity of its public services and its endemic distrust

> **If the Legislature had been forced to resolve the crisis, it might have taught a very different lesson: that representative government can work.**

of elected government as normative. Mark Baldassare's polls for the Public Policy Institute of California (PPIC), indicate (in 2000) that by overwhelming margins (69 percent - 23 percent) voters not only believe that the initiative process is a good thing but that "public policy decisions made through the initiative process are probably better...*than decisions made by the governor and legislature*" (56 percent - 24 percent). A few years ago, state officials like Delaine Eastin, California's superintendent of public instruction from 1994 to 2002, spoke hopefully about raising California's per-pupil spending to the national average, itself tacit acceptance of California's lowered expectations, but even the boom of the late 1990s didn't get us there.

The high level of optimism that made California the national model of capable government and good public services — the Master Plan for Higher Education, the great university and community college systems that went with it, the state's huge investment in other infrastructure, and all the rest — would always have been impossible to sustain at the levels of the 1950s and 1960s.

But Proposition 13, driven in large part by the failure of Governor Jerry Brown and the Legislature to respond quickly enough to the property tax crisis of the 1970s was not inevitable. A whole range of more flexible property tax relief measures were available (an inadequate one was finally put on the same ballot as Proposition 13, but it was too little, too late).



From a *CJ*, 5/78 article on "How the Establishment Destroys Unwanted Initiatives like Jarvis." Illustration by Jan Castle.

The problem wasn't just Brown's famously short attention span, but that the governor himself had berated the schools, universities and public services on which the state had prided itself and thus inadvertently reinforced Howard Jarvis' campaign. And because the state had that two-thirds vote requirement to enact budgets and other fiscal measures, getting agreement even in a Legislature controlled by Democrats — who were themselves sharply divided between urban liberals and rural conservatives — was as difficult then as it is now. But if California, like half the nation's other states, had had no initiative process, is *there any doubt that the issue would have reached a critical* mass in the normal governmental process — almost certainly in the elections of 1978 — and been resolved by it?

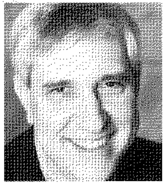
It's always risky to speculate on a counter-factual version of history, but if the Legislature had been forced to resolve the crisis, it might have taught a very different lesson: that representative government can work, even if it's sometimes slow and cumbersome, and that voters better pay attention to it because in a democracy, it's the best thing we have. But the actual lesson was very different. For a generation, voter turnout has been drifting down even more sharply than it has in most other states.

Maybe government wasn't only the "marinated bureaucrats and over-animated popcorn balls" that Jarvis once said it was. But it still came to be seen by a large percentage of voters as an increasingly ineffective, self-serving collection of politicians and civil servants who were often either incapable or unwilling to deal with the state's problems. That meant using the initiative, as Jarvis and Gann had done and as scores of others have since, either to tie down politicians, bureaucrats and judges, or to compel them to act in narrowly prescribed ways — term limits; spending limits; spending mandates; three-strikes laws, and all the rest. Unfortunately, many of those reforms made representative government still more irrelevant, unresponsive and incomprehensible, further increasing voter alienation, and thus reaffirming the lesson that Proposition 13 taught and the world it created.

Peter Schrag is the author of Paradise Lost: California's Experience, America's Future. *He is the former editorial page editor of* The Sacramento Bee, *for which he still writes a weekly column. Comments may be sent to* **comments@californiajournal.com**

A protection plan

by Joel Fox



Walk down the halls of any California government building, many academic institutions or into most newspaper editorial board rooms and you will find strong critics of Proposition 13. Not surprising, since over the course of the 25 years that the tax limiting measure has been in place, Proposition 13 has been blamed for all the ills that have befallen California. Consider this short list of mayhem supposedly authored by Prop 13: The collapse of the freeways after the Loma Prieta earthquake was Prop 13's fault (according to Paul Conrad's editorial cartoon in the *Los Angeles Times*); the failure of the police to prevent Polly Klaas' murder (Richard Reeves in *Money Magazine*); the Los Angeles riots following the decision in the Rodney King police officers' case (*The Washington Post*); the not-guilty verdict in the O. J. Simpson murder trial (Robert Wright in the *New Republic*). And that doesn't even include Proposition 13's supposed negative effect on education, local government and the current massive state budget deficit, which prompts loud calls to get rid of, or alter, Proposition 13.

> Citizens know that Proposition 13 is their last check against an out-of-control government.

Yet, despite all of this hand wringing, the people strongly support the measure, and by about the same two-to-one margin it passed by a quarter-century ago. Remarkable, especially since a large number of today's Californians either did not live in the state or are not old enough to remember the trepidation and dread that accompanied the opening up of that pre-1978 property tax bill most homeowners could not afford.

How could this be? Simply because the average voter understands that Proposition 13 is not about wild charges that the initiative is responsible for death and destruction; nor is it about budget deficits, unequal taxes, or encouraging poor land-use planning.

Proposition 13 is about taxpayer protection, and the public gets it.

Proposition 13 continues to give certainty to the taxpayer instead of the tax collector. At a time when taxpayers in other states are facing double-digit property tax increases, under the Proposition 13 system, California taxpayers know what their property taxes will be year in and year out, no matter how much a rich neighbor decides to pay for a property next door. Those who complain about inequality because similar side-by-side homes pay different amounts of property taxes do not understand, as Adam Smith did, that in taxation, "a very considerable degree of inequality ... is not near so great an evil as a very small degree of uncertainty."

What critics of Proposition 13 miss is that the campaign was a social movement that secured stability in neighborhoods by helping to make housing affordable and by allowing small mom-and-pop operations to stay in business. Ronald Reagan underscored the importance of this movement when he voiced a radio ad urging listeners to help preserve a big part of the American Dream – home ownership – by voting for Proposition 13.

The people understand that Proposition 13 cannot be responsible for budget deficits when there have been huge surpluses in government budgets since Proposition 13 passed. California state and local governments collect $120 billion in revenue, far more than they collected in 1978, even adjusted for population and inflation growth.

If revenue allocation between state and local governments is off-kilter because of legislative decisions such as the post-Proposition 13 tax distribution formula or the 1990s education fund shift known as ERAF, then the Legislature can fix those problems statutorily. There is no need to change Proposition 13's constitutional protections.

Because of ever expanding government, taxpayers need to hold onto their taxpayer protections. With bills in the Legislature such as the one that would increase some public employee pensions to 100 percent, citizens know that Proposition 13 is their last check against an out-of-control government. They don't want to go back to the bad old days and read stories like the one in the *Newhall Signal* about a decade before Proposition 13 passed when an elderly couple faced a tax bill of $1800 and their total income was $1900.

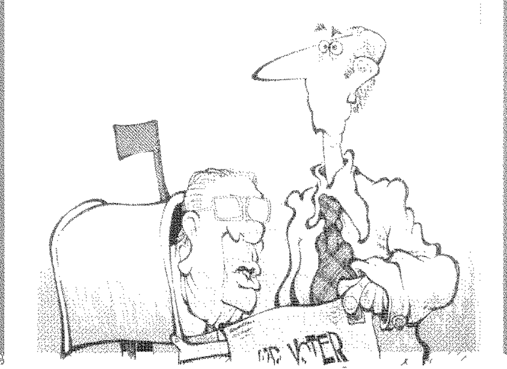
People don't trust government, so they intend to keep their taxpayer shield in the Constitution. Distrust in government is as old as this nation itself and was the reason the Bill of Rights was added to the United States Constitution. As a taxpayer protection, in the people's eyes, Proposition 13 enjoys the same exalted status.

PROPOSITION 13 ★ 25th ★ ANNIVERSARY

Joel Fox is past president of the Howard Jarvis Taxpayers Association. His new book, "The Legend of Proposition 13", *is published by Xlibris. Comments may be sent to* **comments@californiajournal.com**

PROPOSITION 13

For nearly 10 years, Howard Jarvis tried, and failed, to get a property tax reduction initiative on the ballot. Then in 1978, Jarvis — along with Paul Gann — succeeded: Their measure, Proposition 13, passed in June of that year. The pair rode the success of Proposition 13 over much of the following decade by introducing a string of tax-reduction and government-limiting ballot initiatives. Years before Jarvis' victory, Los Angeles Tax Assessor Philip E. Watson tried, and failed, three times to pass a property tax initiative. One could argue that Watson, not Jarvis, was the true father of Proposition 13. Watson, who is now deceased, said as much in an interview with the *Los Angeles Times*. "God bless him," Watson said of Jarvis. "My time wasn't right. But it still was my idea, and I know that."



1966

Republican Ronald Reagan defeats incumbent Democrat Pat Brown for governor. Reagan promises during the campaign to press for property tax relief.

Ronald Reagan

1968

Los Angeles tax assessor Philip E. Watson qualifies a similar measure, Proposition 9, which Jarvis backs. Reagan campaigns against the measure, which fails by a margin of 68% to 32%.

Howard Jarvis fails to get enough signatures to put a property tax limitation initiative on ballot.

1970

Ronald Reagan is re-elected governor, defeating Democrat Jesse Unruh. Both candidates promise property tax relief.

1971

The California Supreme Court, in *Serrano v. Priest*, declares California's school finance system unconstitutional. The court rules that it violates the equal protection provisions of the federal and state constitutions because local property taxes are the major source of funding for school districts, creating an inequity between districts.

Jesse Unruh

1972

The Legislature passes SB 90, a compromise plan by Assembly Speaker Bob Moretti and Gov. Reagan to reduce property taxes and create an equitable education funding formula that would bring the state into compliance with the *Serrano* court decision.

Jarvis again fails to qualify a property tax limitation measure for the ballot after county clerks invalidate 200,000 signatures that Jarvis claims are valid.

Watson places a second property tax measure, Proposition 14, on the statewide ballot, but it fails 66% to 34%.

Bob Moretti

1973

Gov. Reagan qualifies a ballot measure, Proposition 1, to refund surplus state revenues, limit state spending and place caps on local government spending. It is defeated 54% to 46%.

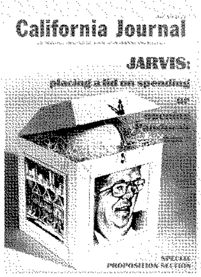
1974

Democrat Jerry Brown defeats Republican Houston Flournoy for governor after a campaign in which both candidates promise property tax relief.

A Los Angeles judge rejects the education funding formula of SB 90 and reinstates the *Serrano* order requiring the state to equalize its finance of local schools. Formula of SB 90 remains in place pending appeal.

1976

Howard Jarvis fails for the third time to qualify a property tax limitation measure on the ballot. But this time he comes within 10,000 signatures of qualifying.


California Journal

JARVIS:
placing a lid on spending

SPECIAL PROPOSITION SECTION

CJ cover, 5/78

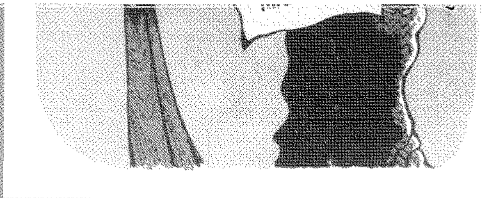
1977

California Supreme Court upholds LA judge on SB 90, ending the state's formula for equalizing its school finance system.

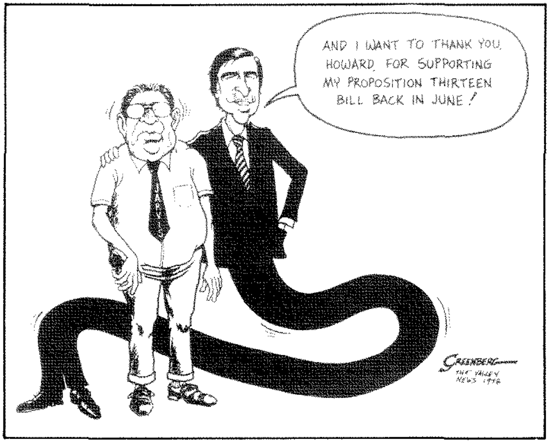
Proposition 13, sponsored by Jarvis and Paul Gann, qualifies for the June 1978 budget with a record 1.2 million signatures.

Trying to head off a political firestorm over rising property taxes, Gov. Brown proposes nearly $500 million in property tax relief (to lower income groups) and a "split-roll" property tax, which would tax commercial and residential properties at different rates. The proposals are defeated by the Legislature.

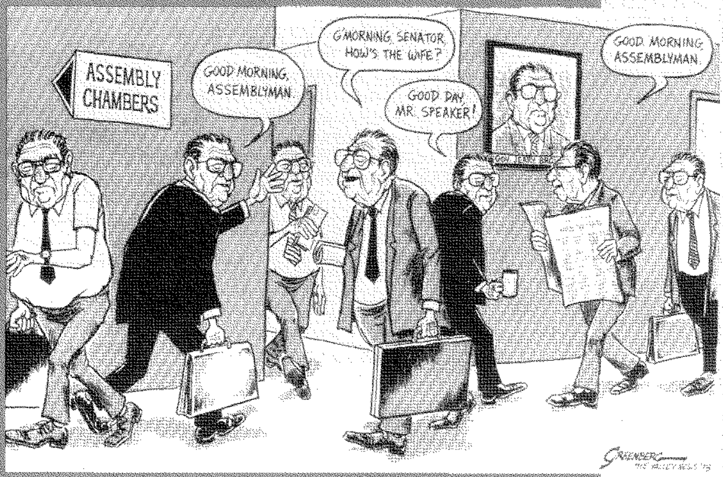
1978



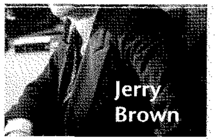
For an article in the 1/79 *CJ* titled, "The GOP secret weapon: Howard Jarvis' signature." One of the early mass-produced computer letters endorsing GOP election candidates


AND I WANT TO THANK YOU, HOWARD, FOR SUPPORTING MY PROPOSITION THIRTEEN BILL BACK IN JUNE!
GREENBERG
THE VALLEY NEWS 1978

For an article in the 8/78 *CJ* titled, "Life after Jarvis." Jerry Brown takes credit for Proposition 13. Cartoon by Steve Greenberg


ASSEMBLY CHAMBERS
GOOD MORNING, ASSEMBLYMAN.
G'MORNING, SENATOR. HOW'S THE WIFE?
GOOD DAY, MR. SPEAKER!
GOOD MORNING, ASSEMBLYMAN.
GREENBERG
THE VALLEY NEWS '79

For the 10/79 *CJ* article on legislation titled, "An early christmas," where Jerry Brown signed a package of state tax bills after the June passing of the Jarivs-Gann initiative. Cartoon by Steve Greenberg



Gov. Brown, in his re-election campaign, opposes Proposition 13.

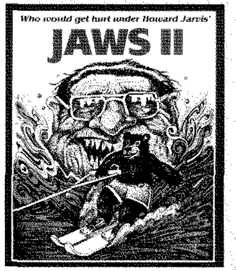
With Proposition 13 on the ballot and a surplus in the state budget that grew to $5 billion, Gov. Brown calls the Legislature into special session in January to enact a property tax relief measure. Lawmakers pass a $1.3 billion property tax relief bill that would go into effect if Proposition 13 is defeated. They also place Proposition 8 on the June ballot, which would create a split roll tax structure and reduce property taxes for homeowners.

Proposition 8 fails, 53% to 47%, while Proposition 13 passes, 65% to 35%. This finally brings California into compliance with the *Serrano* decision.

Gov. Brown promises to implement Proposition 13, despite his opposition to the measure.

State lawmakers approve $5 billion in new state aid to local governments to avert layoffs threatened by the impact of Proposition 13.

Brown is re-elected governor over Republican Attorney General Evelle Younger.


Who would get hurt under Howard Jarvis'
JAWS II

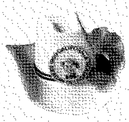
***CJ* cover, 3/80**

1979

Proposition 13 co-author Gann puts Proposition 4 — "the spirit of 13" initiative — on the ballot. The measure would place in the state Constitution spending limits for state and local governments. Proposition 4 passes, 74% to 26%.

1980

Former Gov. Reagan is elected president, defeating incumbent Jimmy Carter. During the campaign Reagan promises to reduce federal income taxes.



Reagan for Pres. campaign

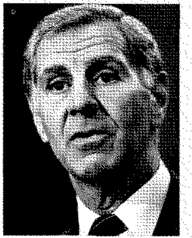
Jarvis qualifies another initiative — Jarvis II — for the ballot. Jarvis' Proposition 9 would cut Californians' income tax by 50%. The measure is defeated, 61% to 39%.

Two years after passage of Proposition 13, 43 states had reduced property taxes and 15 had lowered income taxes. California's measure is also credited with a role in Reagan's election to the White House.

1982

Jarvis' next initiative, Proposition 7, qualifies for the ballot. The measure proposes full indexing of income tax brackets. Voters approve the measure in June by a vote of 63% to 37%.

Republican George Deukmejian defeats Democrat Tom Bradley for governor. Gov. Brown loses U.S. Senate race to Republican Pete Wilson.



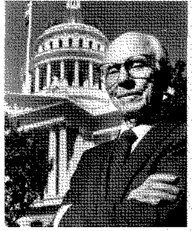
George Deukmejian

1986

Howard Jarvis dies on August 12.

The last initiative from Jarvis, Proposition 62, proposes majority voter approval of local taxes and restates the two-thirds voter approval requirement for local special taxes. The measure passes in November, 58% to 42%.

Howard Jarvis



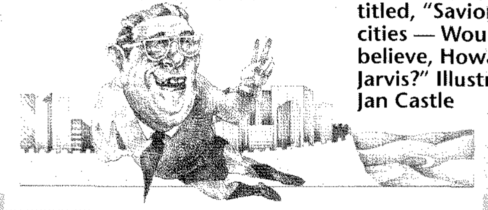
Paul Gann

1989

Paul Gann dies September 11

1996

Proposition 218 — sponsored by groups founded by Jarvis and Gann — passes, 56% to 44%. The measure limits the ability of local governments to raise revenue through fees, assessments and taxes.

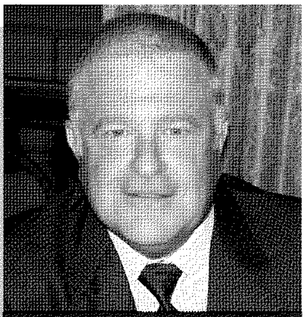


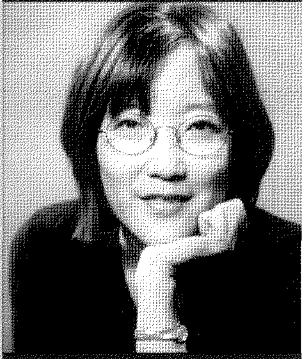
For a 4/79 CJ article titled, "Savior of the cities — Would you believe, Howard Jarvis?" Illustration by Jan Castle

Elections:

The term limit tango

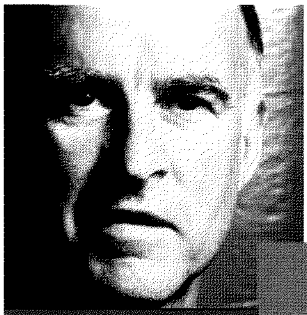
It's a frequent happening in a post-term limits world — one seat, and multiple veteran politicians set to claim it. This time it's SD 9, which includes much of the East Bay. Democrat **Don Perata** has held the seat since 1998, when he was elected to finish the term of Barbara Lee, who was elected to Congress. Perata was re-elected in 2000 and plans to run again in 2004. This has angered fellow East Bay Democrats, including Assm. **Wilma Chan** and former Assm. **Dion Aroner**, who say that because Perata was elected in November 1998 — a little less than halfway through Lee's term — he will have served what is technically considered two terms and is therefore termed out. Perata disagrees, saying that because he didn't take oath of office until December 1998 — a little more than halfway through Lee's term — he has served less than two terms and is entitled to run again. Both sides are armed with legal opinions — Chan went to the Legislative Counsel, who agreed with her, and Perata went to Attorney General Bill Lockyer (Perata's former boss), who sided with him. The issue, all agree, will likely end up in the courts.


Don Perata


Wilma Chan

Campaign watch

Oakland Mayor and former Gov., **Jerry Brown** told the *San Francisco Chronicle* that he is weighing a bid for attorney general. The *Chronicle* reports that other possible candidates include Los Angeles D.A. **Steve Cooley**, plaintiff's attorney **Joseph Cotchett** and Gov. Davis' chief-of-staff **Lynn Schenk**. Thus far, the only two candidates to file to run for AG are Democratic Sen. **Joe Dunn** and former Republican Assm. **Rod Pacheco**. … While he hasn't yet filed to run for state treasurer in 2006, Democratic Sen. **Dean Florez** told *Political Pulse* he's running for the office. That could put him in direct competition with former Democrat legislator **Jim Costa**, who represented the same Senate district (16) that Florez now represents before Costa was termed out in 2002. Costa has filed to run for the seat, as has Republican Bd. of Equalization member **Claude Parrish**. Florez's fellow Democratic Sen., **Deborah Ortiz** is also rumored to be interested in the post. … There are four current senators who have filed to run for lt. gov. in 2006. Democrats **Liz Figueroa** and **Jackie Speier** have filed, as have Republicans **Bill Morrow** and **Chuck Poochigian**. … Sen. Minority Leader **Jim Brulte** has filed to run for the Bd. of Equalization in 2006 — most likely for District 3, which is now represented by the termed-out-in-'06 Parrish. Also termed out in 2006 is District 4's John Chiang. Consumer attorney **David T. Vahedi** has filed to run for the seat. … GOP candidates are coming out of the woodwork to challenge scandal-damaged GOP Assm. **Steve Samuelian** in 2004. While Fresno City Council member **Chris Mathys** is the only challenger to register with the Sec. of State's office, *The Fresno Bee* reports that possible choices include: Fresno County Supe. **Bob Waterson**, GOP activist **Debbie Poochigian** (wife of Sen. Chuck Poochigian), businessman **Tal Cloud**, former Assm. **Mike Briggs** and others. … A battle is shaping up for Orange County's 69th AD, which is now represented by Democrat Lou Correa (termed out in 2004). Thus far, Democratic attorney **Nadia Maria Davis** — who recently married Atty. Gen. Bill Lockyer — has filed to run for the seat along with Santa Ana School Bd. member **Sal Tinajero** and **Armando de la Libertad**. … In another potentially stiff battle, Garden Grove City Councilman **Mark Leyes**, a

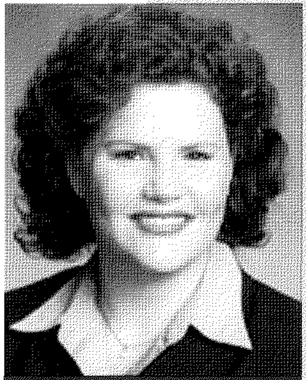

Jerry Brown

Lynn Schenk

Republican, is taking on fellow council member and Mayor pro Tempore **Van Tran** in the GOP primary for the 68th AD. The seat is currently held by Republican John Campbell. ... Pleasanton Democratic Mayor **Tom Pico** is weighing a run for the 20th AD, a seat currently held by Democrat John Dutra, who is termed out in 2004. Newark Councilman **Alberto Torrico** is also considering a bid. ... Democrat **John Carcione**, who sits on the board of the West Bay Sanitary Dist. in San Mateo County, has joined a long list of local politicians running for AD 21, which is currently held by **Joe Simitian**, who is running for Senate in 2004. Carcione is the grandson of Bay Area television legend Joe "Green Grocer" Carcione. ... Democrat **Vince Hall**, former staff director to Gov. Davis, is running for the 76th AD. The seat is currently held by Democrat **Christine Kehoe**, who is running for Senate in 2004. Hall lost in 2002 for AD 78. ... Democrat **Carole Migden**, who currently sits on the Bd. of Equalization, has filed to run for SD 3, as has San Francisco Mayor **Willie Brown**. The seat will be vacated in 2004 by the termed-out **John Burton.**

Lobbying:

From the fire into the pan

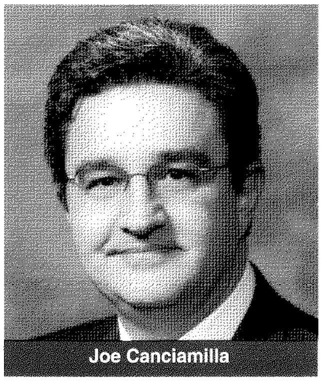


Lori Easterling

It's been a rough year for **Lori Easterling**. The former executive director of the Sacramento City Teachers Assn. has waged a losing battle against Sacramento Unified School Dist. over whether Sacramento High School could be shut down and reopened as charter school. Now with that war behind her, Easterling recently started a career as a lobbyist — she was hired as a legislative advocate for the California Teachers Assn.

Lobbying and PR

Mary Gonsalves, who previously lobbied at Steffes, Foley & Lardner, joined up with Kahl/Pownall. ... **Laurie Hansen**, an American Plastics Council lobbyist, quit the trade group and is now representing other clients. ... **Jan McFarland**, formerly of V. John White and Assoc., started her own lobbying shop called Fairhaven Institute. ... **Lara Flynn**, who formerly worked with Lenny Goldberg & Assoc., is now working for the CA Nurses Assn.. ... **Dan Geis**, who worked with the Agricultural Energy Consumers Assoc., is now a lobbyist with the Dolphin Group. ... **Dan Western** has started his own firm and no longer works for Western, Murch & Assoc. ... **Kathryn Austin Scott**, former lobbyist with the CA Rehabilitation Assn., now works with Scott Consultants. ... Former *Sacramento Bee* reporter **Silvina Martinez** joined Perry Communications Group as director of Latino outreach and media relations.



Joe Canciamilla

Government

Democrat Assm. **Joe Canciamilla** was named the Assm. Budget Subcom. on Ed. Finance. ... GOP Assm. **Todd Spitzer** got a new press sec. in Chris Orrock, who until recently worked for GOP Assm. Samuelian. ... **Ryan Rauzon** is back in Speaker Herb Wesson's press office after a stint at a Flagstaff, AZ. television station. ... Sen. **Figueroa** was named to the Sen. Select Comm. on Intl. Trade Policy and State Legislation. ... Controller Steve Westly appointed **Pamela Karlan** to the Fair Political Practices Comm. Karlan is a professor of public interest law at Stanford Law School. ... Westly also rounded out his staff, hiring **Sandy Harrison** as director of communications and **Windie Scott** as deputy controller for policy.

Other

San Jose Mercury News Capitol reporter **Dion Nissenbaum** was assigned to cover the war in Iraq. In April, Nissenbaum went to London for special training to become embedded with military forces and was sent to Iraq soon after. ... Gov. Davis appointed **Teresa Schwartz**, former chief dep. warden of Pelican Bay State Prison, to be the warden of the California Medical Facility, California Dept. of Corrections. The post pays $96,126. ... FPPC Media Director **Sigrid Bathen** received the Lifetime Achievement Award from the State Information Officers Council. Bathen formerly was senior editor with the *California Journal*.

Who's filling what jobs in your office? Drop us a line at **people@statenet.com.**

Other business

The Legislature sped through an assortment of bills in late April and early May, but budget maneuvering largely overshadowed most legislation. While lawmakers cleared out a host of bills, much of the most watched non-budget related measures were in committees, including five notable health care bills. All three Assembly health bills — Democrat Dario Frommer's AB 1527, Democrat Rebecca Cohn's AB1528 and Republican Keith Richman's AB 30 — all were passed out of the Assembly Health Comm. to the Appropriations Comm. Cohn's and Frommer's bills are modified "pay or play," which would mandate employers that don't offer health insurance to contribute to a state fund, while Richman's bill expands the Healthy Families program. In the Senate, Sen. pro Tem John Burton and Sen. Sheila Kuehl have competing bills. Burton's — SB 2, another "pay or play" bill — passed out of the Senate Insurance Comm. and the Health and Human Services Comm. to Appropriations, while Kuehl's — SB 921, which offers single payer coverage to all Californians — passed the same first two committees and was in the Senate Rules Comm., which Burton chairs. Here's a look at other bills that made it through the Senate and the Assembly.

Senate

SB 645 (Sher) Plastic bags: Requires the CA Integrated Waste Management Bd. to post on its website a list of any suppliers, manufacturers or wholesalers who fail to meet state recycling standards. Passed 22-13.

SB 999 (Machado) Pollution: Increases the 11-member board of the San Joaquin Valley Unified Air Pollution Control District to 15 members, with new members being appointed by statewide officials, and specifies new members must come from San Joaquin Valley and have experience in air pollution control. Passed 21-14.

SB 90 (Torlakson) Rentals: Establishes specific methods and timeframes for a landlord to return any unused security deposit to a former tenant and to provide an accounting of any amount that is used. Passed 22-13.

SB 333 (Romero) Car insurance: Increases from one year to two years the permitted time for an insured driver with coverage against uninsured motorists to file a cause of action against an uninsured motorist. Passed 21-13.

SENATE (25 D. 15R)	SB 645	SB 999	SB 90	SB 333	SB 33	SB 455	SB 804
Aanestad (R)	N	N	N	N	N	N	N
Ackerman (R)	N	N	N	N	N	N	N
Alarcón (D)	Y	Y	Y	Y	Y	Y	Y
Alpert (D)	Y	Y	Y	Y	Y	Y	Y
Ashburn (R)	N	N	N	N	N	N	N
Battin (R)	N	N	N	N	N	N	N
Bowen (D)	*	*	*	*	*	*	*
Brulte (R)	N	N	N	N	N	N	N
Burton (D)	Y	Y	Y	Y	Y	Y	Y
Cedillo (D)	Y	Y	*	Y	Y	Y	Y
Chesbro (D)	Y	Y	Y	Y	Y	Y	Y
Denham (R)	N	N	N	N	N	N	N
Ducheny (D)	Y	Y	Y	*	Y	Y	Y
Dunn (D)	Y	Y	Y	Y	Y	Y	Y
Escutia (D)	Y	Y	Y	Y	Y	Y	Y
Figueroa (D)	Y	Y	Y	Y	Y	Y	Y
Florez (D)	Y	*	Y	Y	Y	Y	Y
Hollingsworth (R)	N	N	N	N	N	N	Y
Johnson (R)	N	N	*	*	*	*	N
Karnette (D)	Y	Y	Y	Y	Y	Y	Y
Knight (R)	*	N	N	N	N	N	N
Kuehl (D)	Y	Y	Y	Y	Y	Y	Y
Machado (D)	Y	Y	Y	Y	Y	Y	Y
Margett (R)	N	N	N	N	N	N	Y
McClintock (R)	N	N	N	N	N	N	Y
McPherson (R)	Y	N	N	N	Y	N	N
Morrow (R)	N	N	*	*	N	N	N
Murray (D)	Y	Y	Y	Y	Y	Y	Y
Oller (R)	N	*	N	N	N	N	N
Ortiz (D)	*	Y	Y	Y	Y	Y	Y
Perata (D)	Y	Y	Y	Y	Y	Y	Y
Poochigian (R)	N	N	N	N	N	N	N
Romero (D)	Y	Y	Y	Y	Y	*	Y
Scott (D)	Y	Y	Y	Y	Y	Y	Y
Sher (D)	Y	Y	Y	Y	*	Y	Y
Soto (D)	Y	Y	Y	Y	Y	Y	Y
Speier (D)	*	*	Y	*	Y	Y	Y
Torlakson (D)	Y	Y	Y	Y	Y	Y	Y
Vasconcellos (D)	Y	Y	Y	Y	Y	Y	Y
Vincent (D)	*	*	*	*	*	*	*

Source: Senate and Assembly web sites.

VOTER RECORDS

Listed here are the votes of legislators on recent major roll calls through mid-July. Votes selected involve issues of major importance and issues on which there was a major division of opinion, or both.

Y - Yes N - No

*** - Absent or not voting**

A 2/3 vote is required for urgency measures, constitutional amendments, and appropriations.

Assembly: 41 votes required for passage of bills needing a simple majority. (2/3 = 54 votes)

Senate: 21 votes required for passage of bills needing a simple vote majority. (2/3 = 27 votes)

SB 339 (Alpert) Child support collectors: Limits fees paid by parents to agents assigned to collect delinquent child support payments from estranged parents. Regulates advertising for child support collection. Passed 23-13.

SB 455 (Torlakson) Foreclosure law: In a lawsuit between a buyer and a seller of a foreclosed home, authorizes a court to award a civil penalty of up to $2,500 to seller, if seller proves that buyer violated certain provisions of the sale. Also increases the maximum criminal fine from $10,000 to $25,000 for such violations. Passed 22-14.

SB 804 (Machado) Homestead exemptions: Increases the homestead exemption in money judgments against debtors. (Existing law provides that if a home cannot be sold for an amount greater than the homestead exemption, it shall not be sold to satisfy a judgment). Passed 26-12.

Assembly

AB 270 (Bates) Jury service: Exempts harbor and port police from jury service in civil and criminal cases. Passed 65-6.

AB 296 (Mullin) School noise: Requires that new public school buildings located in areas that exceed certain noise levels have specified sound insulation levels. Passed 50-20.

AB 305 (Mullin) Child care: Requires a city or county to give incentives to housing developers who include child care facilities in their proposals unless the area has adequate child care. Passed 49-28.

AB 522 (Diaz) Identification: Requires local government officers and employees to accept the identification card issued by the Mexican Consulate office for purposes of personal identification. Passed 56-9.

AB 1308 (Goldberg) Inmate addiction: Authorizes local correctional facilities to also provide programs for the treatment of inmates with alcohol or controlled substance addiction at local correctional facilities. Passed 54-14.

AB 76 (Corbett) Harassment: Protects workers from workplace harassment perpetrated by customers, vendors or others, invalidating a 2002 court decision. Passed 50-27.

AB 1124 (Nunez) School restrooms: Requires that "maintenance of facilities account" funds be used, as a first priority, for the maintenance of school restroom facilities. Passed 51-24.

ASSEMBLY (48D, 32R)	AB 270	AB 296	AB 305	AB 522	AB 1308	AB 76	AB 1124		AB 270	AB 296	AB 305	AB 522	AB 1308	AB 76	AB 1124
Aghazarian (R)	Y	*	N	Y	*	N	N	Leslie (R)	Y	*	N	*	*	N	N
Bates (R)	Y	*	N	*	Y	N	N	Levine (D)	*	*	*	Y	Y	Y	Y
Benoit (R)	Y	N	N	*	*	N	N	Lieber (D)	N	Y	Y	Y	Y	Y	Y
Berg (D)	Y	Y	Y	Y	Y	Y	Y	Liu (D)	N	Y	Y	Y	Y	Y	Y
Bermúdez (D)	Y	Y	Y	Y	Y	Y	Y	Longville (D)	Y	Y	Y	Y	Y	Y	Y
Bogh (R)	Y	N	N	N	*	N	N	Lowenthal (D)	Y	Y	Y	Y	Y	Y	Y
Calderon (D)	Y	Y	Y	Y	*	Y	Y	Maddox (R)	Y	Y	*	N	N	*	Y
Campbell (R)	*	N	N	*	N	N	N	Maldonado (R)	Y	N	N	N	N	Y	Y
Canciamilla (D)	Y	Y	Y	Y	Y	Y	Y	Matthews (D)	Y	Y	Y	Y	Y	Y	Y
Chan (D)	*	Y	Y	Y	Y	Y	Y	Maze (R)	Y	N	N	Y	Y	N	N
Chavez (D)	Y	Y	Y	Y	Y	Y	Y	McCarthy (R)	*	N	N	*	Y	N	N
Chu (D)	Y	Y	Y	Y	Y	Y	Y	Montañez (D)	Y	Y	Y	Y	Y	Y	Y
Cogdill (R)	*	*	*	*	N	N	N	Mountjoy (R)	Y	N	N	N	N	N	N
Cohn (D)	N	Y	Y	Y	Y	Y	Y	Mullin (D)	Y	Y	Y	Y	Y	Y	Y
Corbett (D)	Y	Y	Y	Y	Y	Y	Y	Nakanishi (R)	Y	Y	N	N	Y	N	Y
Correa (D)	Y	Y	Y	Y	Y	Y	Y	Nakano (D)	*	Y	Y	Y	*	Y	Y
Cox (R)	Y	N	N	*	N	N	N	Nation (D)	N	Y	Y	Y	Y	Y	Y
Daucher (R)	Y	*	N	Y	*	Y	N	Negrete McLeod (D)	Y	Y	Y	Y	Y	Y	Y
Diaz (D)	Y	Y	Y	Y	Y	*	*	Nuñez (D)	*	Y	Y	Y	Y	Y	Y
Dutra (D)	Y	Y	Y	Y	Y	Y	Y	Oropeza (D)	Y	Y	Y	Y	Y	Y	Y
Dutton (R)	Y	*	Y	Y	N	N	*	Pacheco (R)	Y	*	N	Y	*	N	*
Dymally (D)	N	Y	Y	Y	Y	Y	Y	Parra (D)	Y	Y	Y	Y	Y	Y	Y
Firebaugh (D)	*	Y	Y	Y	Y	Y	Y	Pavley (D)	Y	Y	Y	Y	Y	Y	Y
Frommer (D)	Y	Y	Y	Y	Y	Y	Y	Plescia (R)	Y	N	N	N	Y	N	N
Garcia (R)	Y	N	N	Y	N	N	N	Reyes (D)	Y	Y	Y	Y	Y	Y	Y
Goldberg (D)	Y	Y	Y	Y	Y	Y	Y	Richman (R)	Y	N	N	Y	Y	N	N
Hancock (D)	Y	Y	Y	Y	Y	Y	Y	Ridley-Thomas (D)	Y	Y	Y	Y	Y	Y	Y
Harman (R)	Y	N	N	*	Y	N	N	Runner (R)	Y	N	N	*	N	N	N
Haynes (R)	Y	N	Y	N	N	*	*	Salinas (D)	Y	Y	Y	Y	Y	Y	Y
Horton (D)	Y	Y	Y	Y	Y	Y	Y	Samuelian (R)	Y	N	N	*	N	N	N
Horton (R)	Y	Y	N	*	Y	N	N	Simitian (D)	Y	Y	Y	Y	Y	Y	Y
Houston (R)	Y	*	N	*	*	N	N	Spitzer (R)	Y	*	N	*	*	Y	N
Jackson (D)	N	Y	Y	Y	Y	Y	Y	Steinberg (D)	Y	Y	Y	Y	Y	Y	Y
Keene (R)	Y	N	N	*	N	N	N	Strickland (R)	Y	N	N	*	N	N	N
Kehoe (D)	Y	Y	Y	Y	*	Y	Y	Vargas (D)	Y	Y	Y	Y	Y	Y	Y
Koretz (D)	Y	Y	Y	Y	Y	Y	Y	Wesson (D)	Y	Y	Y	Y	Y	Y	Y
La Suer (R)	Y	N	N	*	Y	N	*	Wiggins (D)	*	Y	Y	Y	Y	Y	Y
Laird (D)	Y	Y	Y	Y	Y	Y	Y	Wolk (D)	Y	Y	Y	Y	Y	Y	Y
LaMalfa (R)	Y	N	N	N	N	N	N	Wyland (R)	Y	N	N	N	N	N	Y
Leno (D)	Y	Y	Y	Y	Y	Y	Y	Yee (D)	Y	Y	Y	Y	Y	Y	Y

Redevelopment on the run

With California in a fiscal crisis, Governor Gray Davis is looking to local redevelopment agencies as a way to bolster education funding. While it's no sure bet that his plan will fly, the agencies — which were originally created to repair blighted neighborhoods — are coming under increased scrutiny.

By Howard Fine

One measure of just how unpopular local redevelopment agencies have become in Sacramento was demonstrated this spring when Governor Gray Davis proposed a raid on the local coffers as way to bolster the general fund. It isn't the first time the statehouse has looked to local tax money as a way out of its own problems. One difference in 2003 is that California could tap the locals not once, but for much of the next two decades.

Agenicies' revenues were **$6 billion,** up from **$4.6 billion.** (2001-02)

When Davis unveiled his plan last January to resolve a budget deficit then estimated at $36 billion, he proposed a permanent shift of property tax dollars from local redevelopment agencies to state coffers, starting at $250 million this year and growing $50 million a year until it reaches more than $1 billion.

Davis' proposal not only shocked local government and redevelopment officials, it also reignited a long-running and bitter debate over the evolving and controversial use of redevelopment as a tool for local government finance. Redevelopment laws were designed to restore eyesore neighborhoods that were losing businesses and jobs by using some of the taxes paid by the designated area to pay for restoration projects. But redevelopment districts became increasingly controversial when they often became a tool for cities to restore some of the funds lost when Proposition 13 cut property taxes in 1978.

And even if Davis' proposals go nowhere in the Legislature — which is likely — the very fact that he proposed such sweeping changes reflects state lawmakers' ambivalence about local redevelopment agencies.

"Redevelopment is not at all politically popular up here [in Sacramento]," said Ted Gibson, former chief economist with the state Department of Finance.

That sentiment was echoed recently by current Assemblymember Joseph Simitian (D-Palo Alto). "Redevelopment agencies are frankly not the most sympathetic players on the Capitol scene," said Simitian, who sits on the Assembly Budget Committee.

If Sacramento is ambivalent about redevelopment, local officials say the feeling is mutual. Redevelopment advocates say Davis' move — if it were to be enacted — could cripple the ability of the state's 384 redevelopment agencies to fund new projects. Also, in recent years, local governments increasingly have come to rely on redevelopment agency projects to bring in vital sales tax and property tax revenues.

"It definitely represents structural change in the redevelopment landscape," said Judy Nevis, chief deputy director of the state Department of Housing and Community Development.

What's more, the Davis proposal couldn't have come at a worse time for the state's housing community. With the state facing a critical and growing shortage of affordable housing, Davis' proposed fund shift could turn off the spigot for what is now the single biggest source for that housing.

And ultimately, Davis' proposal could end up forcing those redevelopment agencies with heavy bond commitments to turn to the general funds of their sponsoring cities to make some of those bond payments, according to Jean Korinki, a lobbyist with the California League of Cities.

In the short run, the loss in affordable housing funds could be made up with proceeds from Proposition 46, the $2 billion housing bond that passed last November. But in the longer run, other sources of funding would have to be found.

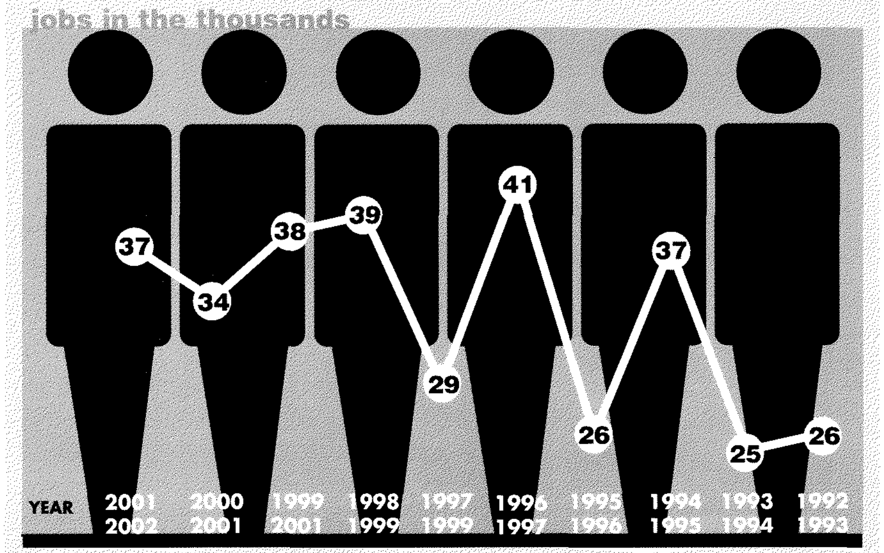
So how did redevelopment funding become so vulnerable?

Davis administration officials say their proposal to shift a portion of property tax revenue from redevelopment agencies to schools is a more appropriate use of the revenue. Currently, the state "backfills" school funds that are diverted to redevelopment projects. So eliminating the state backfill will represent a savings for the state general fund.

But redevelopment advocates say there's more to it than that. "This is

Jobs created by redevelopment

According to the controller's office, redevelopment money created about 37,000 jobs in 2001-2002.



Source: CA Controller's Office. 2001-2002 not just aimed at fixing the deficit problem. This is a proposal to put redevelopment out of business," said John Shirey, executive director of the California Redevelopment Association, the advocacy arm for redevelopment agencies throughout the state.

Redevelopment lacks clout

Shirey and his local government allies say the state is repeating the diversion that took place during the last big budget crisis 10 years ago, when the state took property tax dollars from local governments to keep its commitment to fund schools. In essence, they say, the state is trying once again to balance its books on the backs of local government entities — in this case, redevelopment agencies.

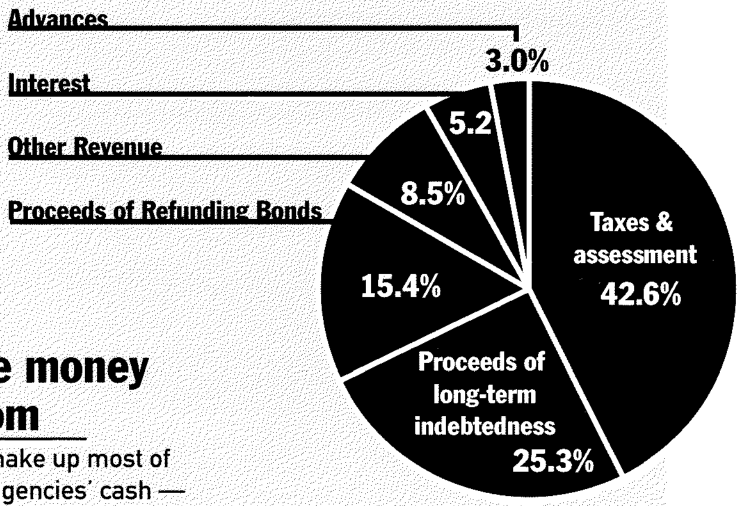
"They are doing this because they think they can get away with it," Shirey said. "It relieves them of the responsibility to find those funds elsewhere."

Politically, redevelopment agencies have not been able to exercise the clout in Sacramento that other constituencies have, such as public employee unions or teachers. And part of that may be due to the very nature of redevelopment itself.

The idea behind redevelopment is to turn distressed areas around by using special government powers to aid private developers when the private marketplace proves insufficient.

When a redevelopment project area is declared, all increases in property taxes that result from improvements in the zone are plowed back into the redevelopment agency and not shared with other entities that rely on property tax dollars, including school districts. This is known as "tax increment financing."

Davis administration officials say they are proposing the shift in property taxes from redevelopment agencies to the general fund be made permanent because they believe too much money is being diverted from schools.



Where the money comes from

Property taxes make up most of redevelopment agencies' cash — in 2001-2002 that was $2.6 billion.

Source: CA Controller's Office. 2001-2002

Property tax increment revenues topped $2.5 billion, up 17%. (2001-02)

"Schools are supposed to get the lion's share of the property tax," said Matt Paulin, principal program budget analyst in the governor's Department of Finance. "With redevelopment agencies getting over $2.5 billion annually in total property taxes, that represents a significant reduction in the amount of money going to schools. The state cannot afford to lose well over $1 billion in property tax monies for schools every year to redevelopment."

Roughly half of the property tax money that's collected each year — in 2001-2002 the total collected was $2.5 billion — is estimated to be siphoned off from schools.

The tools redevelopment agencies use — eminent domain power to assemble large tracts of land and tax increment financing — are both very controversial and have generated many critics over the years.

When businesses and commercial property owners find themselves on the receiving end of a redevelopment agency's eminent domain powers or when a school district or county government loses out on tax dollars to a redevelopment district, they are quick to criticize redevelopment.

Take the use of eminent domain power. In theory, redevelopment agencies invoke eminent domain to assemble small tracts of land into larger ones, to make it easier for a developer or group of developers to come in and remake a large area.

But it's also very controversial.

"Eminent domain power is a difficult tool to use, and people don't like it. As a result, redevelopment gets a bad name," said Larry Kosmont, a Los Angeles-based economic development consultant who has run four redevelopment agencies in his career.

One glaring example of this occurred last year in the Orange County city of Cypress, where the Cottonwood Christian Church had previously purchased a vacant parking lot to build a new church. The city's redevelopment agency sought to use its eminent domain power to turn the property over to Costco Wholesale Corp. for one of its giant warehouse stores.

After the church sued to stop the city from taking its property, the case garnered national attention, pitting redevelopment rights against freedom of religion and the rights of small, independent landowners.

When it became apparent that Superior Court Judge David Carter was set to rule against the redevelopment agency, the city agreed to a land swap.

Redevelopment critic Chris Norby, an Orange County supervisor, says there are many more cases just like this that don't get national attention.

Redevelopment agencies created 37,000 jobs in 2001-02.

"Redevelopment money is going to the likes of Wal-Mart, Costcos and other huge national chains, at the expense of local neighborhood businesses," Norby said.

Redevelopment advocates defend their use of eminent domain, saying that without it, pulling together enough land to turn around an area would be all but impossible. A few property or business owners who refuse to sell could scuttle a deal for a major turnaround project.

Blight controversies

In government circles, however, it's the redistribution of taxes that has counties and school districts up in arms. At the center of their complaints is what they perceive as an abuse of redevelopment agencies' use of blight declarations to set up redevelopment project areas merely to grab more tax dollars.

When a redevelopment agency declares an area blighted, it allows for the setup of tax increment financing, where property tax dollars generated by new projects are plowed back into the area for more new projects.

Initially, there were few clear guidelines for such blight designations. As a result, in the 1970s and 1980s, when most redevelopment project areas were established, many redevelopment areas were designated as blighted even though there was little visible evidence of blight. That prompted a series of legislative reforms in the early 1990s, spearheaded by former Assemblyman Phil Isenberg (D- Sacramento), tightening up the definitions of blight.

Yet those reforms didn't end the controversy. Instead, it shifted to the courts, where local government entities — chiefly counties — sued to stop redevelopment project areas. In four of five cases — including against the cities of Diamond Bar, Mammoth Lakes and Upland — redevelopment agencies lost.

And last year, the County of Los Angeles sued the city of Los Angeles' redevelopment agency to block the designation of a 30-acre tract of land adjacent to the recently opened Staples Center as blighted, noting that a huge sports and entertainment complex is planned for the site. The county claims that the formation of a redevelopment project area there would deprive the county of hundreds of millions of dollars in property tax revenues over the 30-year lifetime of the project area. That lawsuit is still pending.

"It's the most common abuse of redevelopment law by cities up and down the state, depriving counties of billions of dollars in revenues," L.A. County Supervisor Zev Yaroslavsky said at the time the county filed the suit. "With our health system teetering on the edge of collapse and other vital county services threatened, we cannot afford to let this happen any more."

Indeed, this criticism goes to the heart of the tortured fiscal relationship that has arisen among state and local governments since Proposition 13 reduced property taxes, the primary revenue for local government, in 1978. Cities tried

Where the money goes

When it comes to what gets built with redevelopment money, industrial buildings lead the way.

Square Footage by Type of Construction

(in the thousands)	2001-02	2000-01	1999-00	1998-99	1997-98
New Construction					
Commerical Buildings	9,426	6,295	8,647	8,594	4,892
Industrial Buildings	15,635	15,045	12,850	15,867	10,717
Public Buildings	455	1,073	3,270	1,207	453
Other Buildings	5,749	4,203	5,978	4,574	4,416
New Construction Square Footage	31,265	26,616	30,745	30,242	20,478
Rehabilitated Construction					
Commerical Buildings	2,597	7,163	7,747	7,705	1,953
Industrial Buildings	1,592	1,085	1,142	1,491	1,151
Public Buildings	83	62	133	72	94
Other Buildings	926	880	1,003	921	1,117
Rehabilitated Construction Square Footage	5,198	9,190	10,025	10,189	4,315
Total Square Footage	36,463	35,806	40,770	40,431	24,793

Source: CA Controller's Office. 2001-2002

Agencies spent $427 million in low & moderate income housing. Of that, 22% went for administrative, professional and planning costs.

to recover from the revenue loss by seeking ever-larger retail projects that would bring in more sales tax revenues. Redevelopment made many of those projects possible. When combined with the boost in property taxes from tax increment financing, redevelopment became an essential tool of city governments. This reliance intensified about 10 years ago after the state shifted additional property tax dollars away from local government.

Political backdrop

Another abuse that's been cited from time to time is the set-aside of funds for affordable housing. By state law, 20 percent of tax increment dollars generated in a redevelopment project area must go to affordable housing. In the past, allegations arose that some redevelopment agencies were either not setting aside the required 20 percent, or — more frequently — were not using those monies for actual affordable housing projects.

Reforms in 1993 tightened the standards and led to a sharp drop-off in the number of these complaints. As a result, redevelopment agencies now fund the building of some 16,000 affordable housing units per year in California, the largest single source of funding for affordable housing, according to Nevis at the state Department of Housing and Community Development.

Nonetheless, the stories of redevelopment money abuse provide grist for those legislators — principally Republicans — already opposed to redevelopment on philosophical grounds.

"Redevelopment agencies ought to be abolished," said state Senator Tom McClintock (R-Thousand Oaks). "They rob property tax revenues [that are] supposed to support schools and other vital public services and instead use them as handouts for some of the wealthiest corporations in the country."

McClintock added that redevelopment agencies have twisted the use of eminent domain. "Before, eminent domain was only used to acquire property for a genuine public purpose. Now it's used to hand over private property to another private business."

McClintock's view that redevelopment agencies should be abolished is not widely shared in Sacramento. Nonetheless, the controversies surrounding redevelopment have registered among lawmakers.

"No question, these stories are always part of the political backdrop," said Peter Detwiler, consultant to the Senate Local Government Committee.

However, Detwiler said, that is counterbalanced by another trend in recent years: Because of term limits, more legislators now come from the ranks of local governments. And many of these legislators sat on redevelopment agency boards as mayors or city councilmembers.

"They have direct experience with redevelopment and know that in many cases, it works," Detwiler said.

The question now is whether that familiarity with redevelopment will be enough to stave off Governor Davis' proposed permanent fund shift.

"As a general rule, I am anxious to leave local property taxes in the hands of local communities," Assemblyman Simitian said. "But, if the budget crisis is severe enough, what is today a disinclination may be a necessity in a matter of weeks."

Howard Fine is a staff reporter with the Los Angeles Business Journal.*Comments may be sent to* **comments@californiajournal.com**

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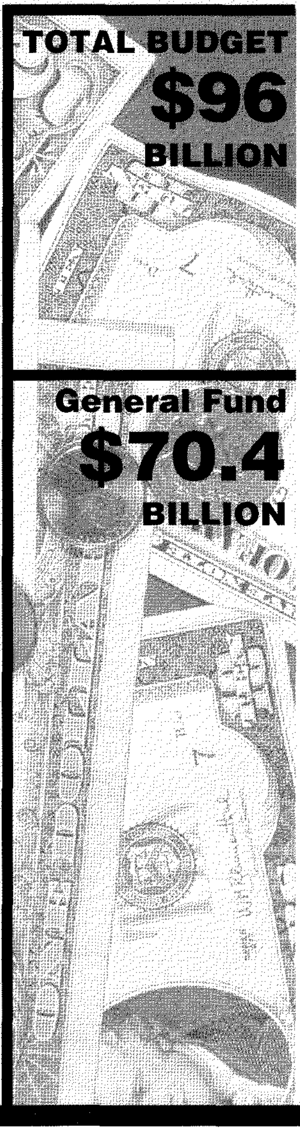
The Davis Compromise



Governor Gray Davis wasn't somber or alarmed when he announced his latest plan to resolve the biggest state budget crisis in history. In fact, a playful governor couldn't resist an I-told-you-so boast about the fact that he came fairly close last December to predicting the ultimate size of the budget shortfall. He estimated it would be $34.6 billion. It turns out to be $38.2 billion.

"This is not way cool," Davis said, prompting laughter from an overflow crowd of reporters gathered in the Capitol press room for the annual May revision of his January budget proposal. "There were just so many people that doubted my revenue estimates ... and we were right on the money. We were like a successful NASA missile launch."

Other than the size of the problem, however, there isn't much left of the budget proposal that Davis demanded last January to resolve the crisis. Democrats ignored billions of dollars in spending cuts he recommended. Republicans united — at least temporarily — behind a no-tax pledge. And lawyers said some of the governor's plan probably wasn't legal. Meanwhile, Davis' popularity is scoring lower in the polls than almost any politician in California history. And critics have organized a trio of recall attempts that are being taken seriously by his advisors.

So when it was time for the governor to update his budget proposal, Davis was not in position to get tough and make demands. This was the time to make more friends, not more enemies. The result is a budget proposal that is an attempt to avoid confrontation and embrace compromise.

Lawmakers have already approved two budget packages this year that will reduce the $38.2 billion deficit by about $15 billion. A hike in the vehicle license fee, which is expected to be triggered administratively, will add about $4 billion to the effort, meaning that they are about halfway to their goal.

For the remaining deficit, Davis wants to borrow $10.7 billion and pay it back over five years or less with a new, half-cent sales tax. That would significantly reduce the pressure for deeper spending cuts or higher taxes, which are politically difficult. But Republicans immediately rejected the sales tax. And Democrats frowned on the fact that the Davis plan — without major change by next year — would leave an $8 billion deficit in the fiscal year budget that begins in July 2004.

At the same time, both sides found something to like about the plan. Republicans actually proposed the idea to borrow money as a way to avoid higher taxes. And the governor was able to make Democrats happy by restoring some of the money for education and health care programs that he had proposed to cut in his earlier budget.

Education cuts already made this year are

Major tax proposals for legislative actions

($ in millions)	YEAR 2003-04	YEAR 2004-05
Temporary Sales Tax: Additional $0.50 for deficit financing bond	$1,742	$2,436
Personal Income Tax: New 10.3% rate upper income taxpayers	$1,560	$1,250
Tobacco Excise Tax: $0.23 increase per pack in 2003-04, $0.40 increase in 2004-05	$267	$678
TOTAL	$3,569	$4,364

The governor's latest budget proposal calls for about $3.5 billion in new taxes during the next fiscal year, roughly half as much tax revenue as he sought in January. As before, the governor targeted sales, cigarettes and the wealthy for higher taxes.

Source: Governor's Office

estimated at about $100 per pupil. School officials warned that the additional cuts Davis proposed in January could force them to lay off up to 30,000 teachers and jeopardize the popular program that limits classrooms to 20 students in early grades. Davis avoided a battle with the politically powerful teacher unions by restoring enough money, he said, to maintain smaller class sizes and stop significant layoffs.

Davis also reduced the fee increase slated for community college students and rescinded his plan to cut grants for the aged, blind and disabled. Significant health cuts remain, including a plan to reduce Medi-Cal reimbursement to doctors by 15 percent.

Davis also reversed two major — and controversial — elements of his earlier budget.

The governor was going to make local governments responsible for a variety of social service programs that are currently operated by the state. Davis would have raised more than $8 billion in new taxes to help local governments pay for the additional responsibilities, but lawyers questioned whether the new taxes could be used as Davis suggested. In his latest plan, Davis scaled back the plan to include fewer programs funded with about $1.8 billion in new taxes.

Davis also planned to cut $4 billion in state funds to local government, prompting concern about police, firefighters and others. The governor's latest budget proposal would maintain the local government money by assuming that the state's vehicle license fee will be tripled, costing the average driver an additional $158 a year. Earlier this year, the vehicle license fee was the focus of a showdown between Davis and Democratic lawmakers when the governor threatened to veto a plan to increase the fee. The issue was resolved in March when government lawyers determined that the fee could be triggered automatically in bad economic times.

Davis also cut in half his earlier plan for Indian casinos to donate $1.5 billion to the state since they are not required to pay taxes. And he dropped a demand he made during his State of the State speech last January when he insisted: "I will not sign a budget without substantial structural reform." Now, the governor said he wants lawmakers to pass a budget in June and to resolve the volatile nature of state finance during the summer.

In addition to the new sales tax, Davis also retained a higher income tax on wealthy people and an increase in the cigarette tax.

If lawmakers accept the idea of borrowing money to pay the deficit, which appeared likely, then insiders say it's possible to get a budget passed before the June 30 deadline. The other major test is whether Republicans will support the tax increases. With a two-thirds majority vote needed to pass the budget, that means six GOP votes in the Assembly and two in the Senate.

The attempts to recall Davis, which face a September deadline to gather enough signatures, also remain a wild card. This year, cash flow problems will quickly force a crisis if the budget is not adopted in June, and Davis would get most of the blame. On the other hand, if a budget is adopted on time and the loan avoids serious cuts or taxes, Davis may dodge a bullet. Republicans control less than 40 percent of the California Legislature, but the fate of the governor and the state budget may be in their hands. 🏛

— David Lesher

"Republicans don't come up here to raise taxes and Democrats don't come up here to cut programs. So, for differing reasons, nobody wanted to get this done in one year."
— Governor Gray Davis

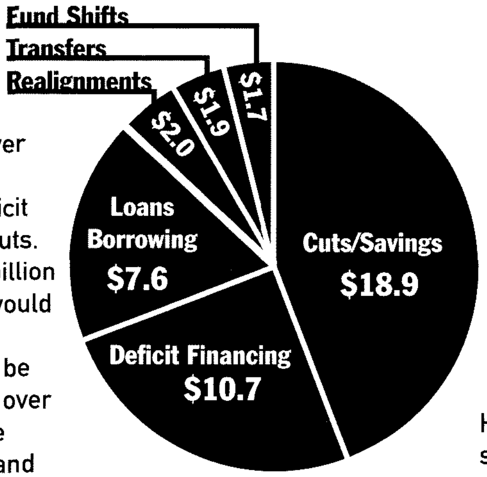
"It doesn't make sense to sign a document that automatically puts us in the hole next year. We need to solve the darn problem and do it now. That's going to take cuts, courage and taxes."
— Assembly Speaker Herb Wesson (D-Culver City)

"This budget is the worst of all worlds. It taxes more, spends more and borrows more. It is not a compromise budget. It is not even close."
— Assemblyman John Campbell (R-Irvine)

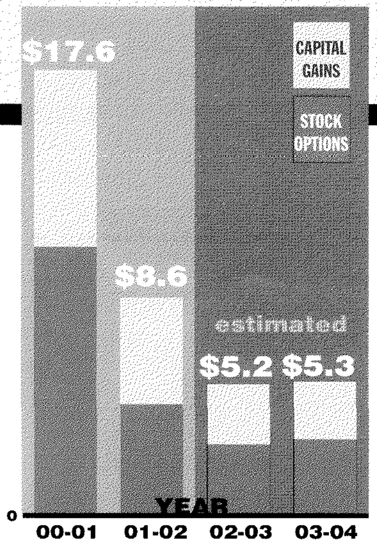
"Republicans will not vote for a budget that increases taxes on the hard-working families of California. It's an issue on which we will not compromise."
— Assembly GOP leader Dave Cox (R-Sacramento)

"I thought it was going to be a horrible disaster. As it turns out, it's bad but better than we anticipated."
— Wayne Johnson, president of the California Teachers Association

"Play it down as they may, I don't believe that any official in the position of Governor Davis could afford not to look at the recall effort. Fledgling as it may be — unlikely as it may be — it's still out there."
— Political scientist Larry Gerston of San Jose State



Davis would cover about 19% of the $38.2 billion deficit with spending cuts. More than $17 billion of the amount would be covered with loans that must be repaid — some over five years, some over two years and some long term.



How did we get in this hole?: Capital gains and stock options generated more than $17 billion in revenue barely two years ago, representing almost a quarter of the general fund. Next year, at about $5 billion, it's just more than 5%.

Affordable housing and tax credits

by Dana Wilkie

The U.S. Department of Housing and Urban Development defines an affordable house as one that costs less than 30 percent of a family's income, either in rent or a monthly mortgage.

But in many of America's big cities, housing prices have jumped so high that some 12 million households are paying half of their incomes, or more, for very modest or even inferior homes.

Now, housing experts worry that President Bush's economic stimulus package, could make the problem worse by threatening the low-income housing tax credit — one of the nation's most successful ways of paying for affordable homes. Congress created this tax credit in 1986 to encourage businesses to invest in housing for the poor. The credits, which reduce a company's tax liability, pay for 98 percent of affordable housing in this country and help to create more than 115,000 rental homes or apartments each year.

In the past dozen years, home prices and rents have increased faster than incomes.

Housing experts warn, however, that Bush's plan to end the tax on dividends that companies pay to their shareholders will reduce the incentive for business to invest in the housing tax credit. If Bush's plan is passed, then what a shareholder gets in tax-free dividends will depend on how much tax a company has already paid. If a company continues to invest in housing tax credits, that reduces the dividend paid to shareholders.

Judy Kennedy, president of the National Association of Affordable Housing Lenders, predicts the Bush plan would prevent as many as 65,000 housing units from being built each year.

"What this really means is that private investment [in affordable housing] goes away, or a lot of it goes away," Kennedy said. "That means that either the [funding] gap has to be closed by other federal, state or city programs, or the housing doesn't happen."

Analysts estimate the Bush plan would eliminate between 20 percent and 62 percent of the tax credits, which would translate into a loss of about 35,000 to 65,000 affordable homes each year. It is unlikely housing advocates could turn to states, cities and counties — which are facing their own budget problems — to cushion the blow.

Bush officials say the housing projections exaggerate the impact of the tax cut, which they say would create 450,000 new jobs.

No one can say what corporations will do should Bush's plan become law. But many analysts conclude that, given the choice between helping to build low-income housing and satisfying shareholders, businesses will no longer find the tax credit as appealing.

"We are concerned that many corporations would likely forego tax credit investments in favor of maximizing the tax-free character of their dividends," concluded the accounting firm of Ernst & Young in a recent report.

The prospect comes at a time when astronomical housing costs, coupled with the slow economy, make it increasingly difficult for low- to middle-income families to buy or rent decent homes. Those who can sometimes skimp on groceries and doctor's visits to make the rent or mortgage. Those who can't turn to charity groups and sometimes end up in homeless shelters or tents.

In California in the past dozen years, home prices and rents have increased faster than incomes. California's 10 fastest growing counties — inland areas once associated with farming and retirement — are turning into population centers with increasing demands for affordable homes.

Some believe the low-income housing tax credit might not be jeopardized at all because of a growing federal budget deficit, made worse by the cost of the war in Iraq, is forcing lawmakers to consider changes in the Bush economic stimulus plan. The House indicates it will pass no more than $550 billion in tax cuts, and the Senate says it will pass no more than $350 billion.

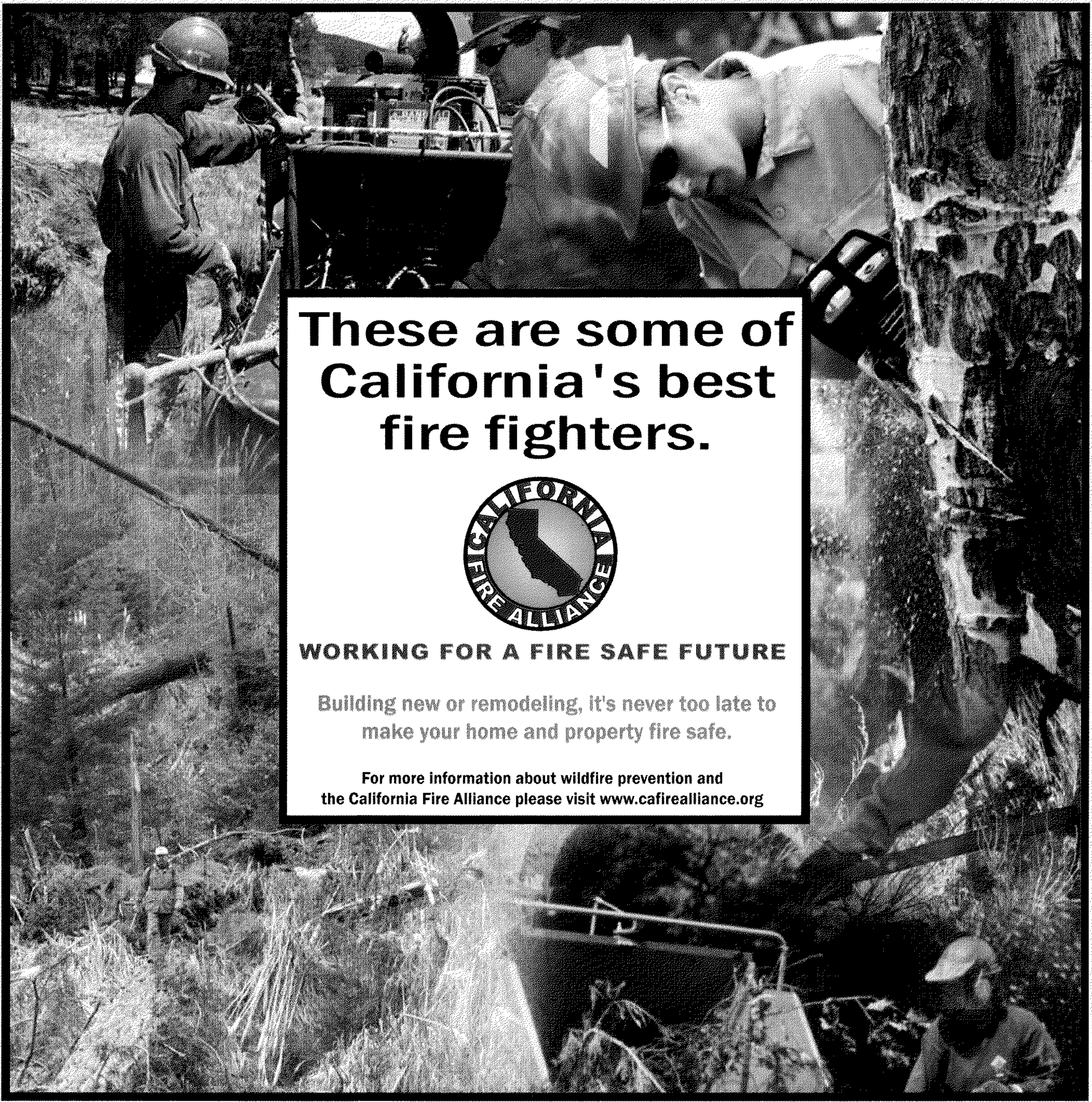
But others say the White House will keep the dividend tax exclusion high on its priority list, even if other parts of its tax-cut plan are sacrificed.

"The administration has been clear that it wants its version of the proposal passed," said Stockton Williams, vice president of public policy for the Enterprise Foundation, an affordable housing advocate.

If there is a silver lining to this affordable-housing cloud, Kennedy said, it's that many lawmakers are just now learning about the tax credit and its role in their own districts.

"Lawmakers are generally unaware of the extent to which this tax credit subsidizes housing in their communities," Kennedy said. "They might not know that in their district, more than 2,000 [housing] units were built this way."

Dana Wilkie is the Washington correspondent for Copley Newspapers. Comments may be sent to **comments@californiajournal.com.**



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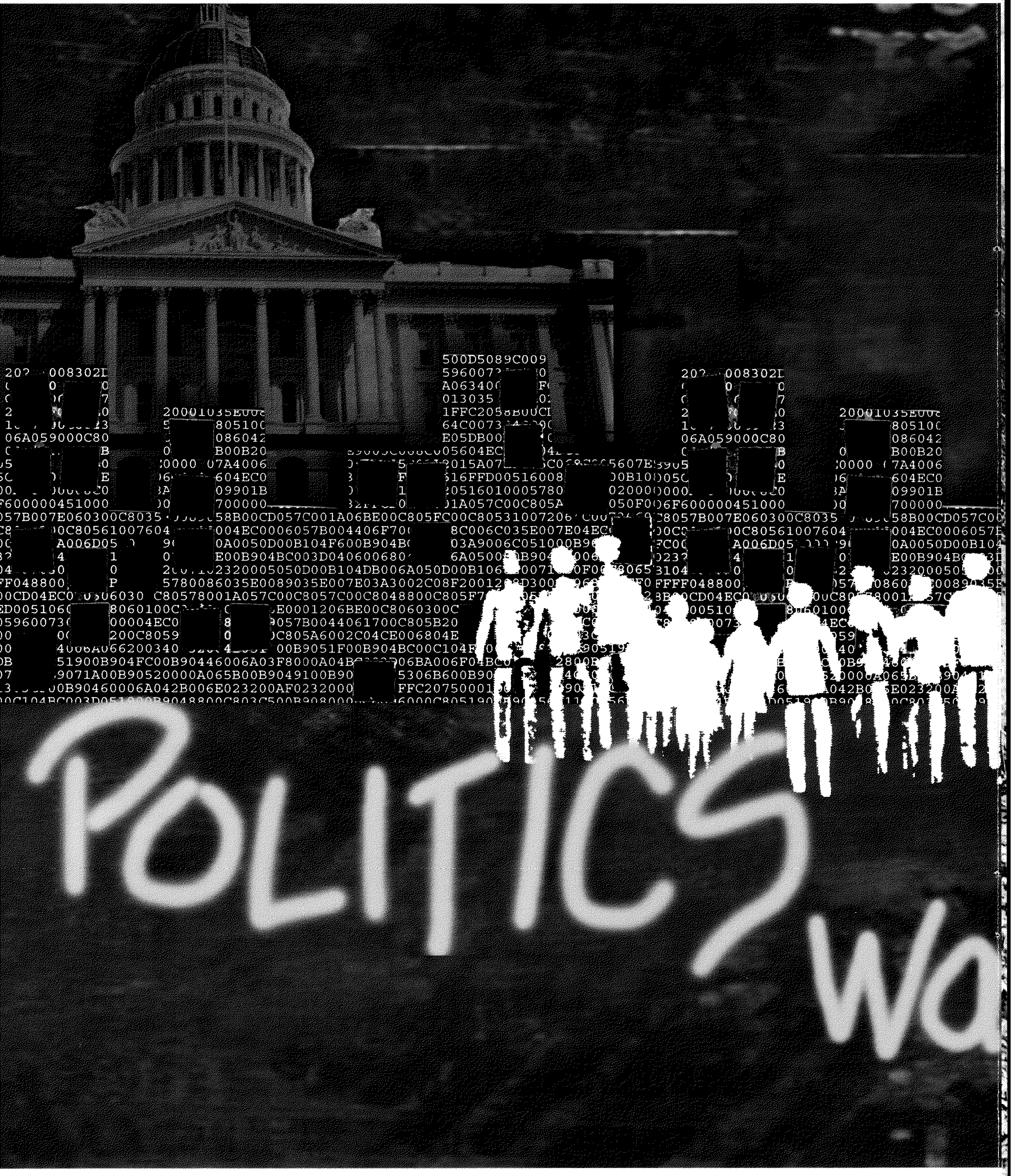
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Add housing to the list of crises that remain unsolved because lawmakers are frozen by powerful competing interests. Several solutions are under consideration at the Capitol, but prospects appear dim for the serious reform needed to accomodate California's growing population.

By William Fulton
and Paul Shigley

The housing crisis continues unabated in California. Though housing production is expected to hit almost 180,000 units in 2003 — the highest figure in more than a decade — that is still about 50,000 houses, apartments and condominiums less than is required to meet demand on an annual basis. So perhaps it is not surprising that, even with a sluggish economy, the state's average home price has risen 15 percent during the last year to about $350,000, according to the California Association of Realtors.

Yet the prospect of major housing policy reform in Sacramento appears to be slipping away for the umpteenth year in a row. A controversial effort by Senator Joe Dunn (D-Santa Ana), to create a state appeals board that could override local housing decisions has fallen by the wayside for the year. Even

The state has pressured local governments to identify and rezone land that could be used for apartments and other high-density housing, such as this new development in San Francisco. Photo: Bridge Housing

a mostly technical reform of the state's housing requirements — carried by Assemblyman Alan Lowenthal (D-Long Beach), chair of the Housing Committee — has been postponed until 2004. And facing an enormous budget deficit, the administration of Governor Gray Davis has been robbed of the only tool it's been willing to use to goose housing production — financial incentives for local governments. In fact, if voters had not approved a $2.1 billion housing bond last fall, there might be almost no state money at all for housing.

Part of the reason that housing policy is not likely to be overhauled in 2003 is the gridlock created by a host of powerful interest groups that have very different views for what constitutes policy "reform." Builders and real estate interests want fewer rules. Housing advocates want more units for poor people. Environmentalists want more protection for the flora and fauna, not to mention the air and water. And local government officials want to maintain the authority to shape their communities.

Another reason for continuation of the status quo is that no one really knows the purpose of the state's housing policy. The Legislature declared housing a matter of statewide concern more than 30 years ago when the main housing problem was not quantity but, rather, fairness. Today, housing lobbyists in Sacramento are focused instead on new regulations to clear out local government barriers to housing construction.

As a result, a primary source of the gridlock on housing issues is the tension between state and local authorities. Since housing developments are approved by local officials, state lawmakers have tried to encourage new housing construction with a strategy of carrot-and-stick policies for cities and counties. But local governments are such a powerful lobbying force in the Capitol that they have blocked most attempts to force compliance on cities and counties. And now the carrots — financial incentives — are prevented by the budget deficit.

"We keep getting blamed in the halls of the state Legislature for apartments not getting built, when the private markets don't want to build them," said Daniel Carrigg, a lobbyist for the League of California Cities. "We can't approve it if the private developers are not asking to build it."

Such sentiments are typical of local government officials, who resent the fact that state housing policy is directed primarily at them, even though many other factors help determine how much housing is built in the state. So the locals resist tweaking current state housing policy — even as the Legislature is apparently not ready for more sweeping change that might get at the root of the problem.

California is one of the few states that sets state-level standards for housing production, through a regulation called the "Regional Housing Needs Allocation." It requires that cities and counties adopt a "housing element" that shows how they will build enough homes to satisfy their share of the statewide allocation. It is a unique state law and one of the most ambitious attempts in the country to encourage housing production.

But even though California's system appears strong on paper, it does not work well in real life. The process of allocating five-year numerical targets for housing production is a top-down process that begins in Sacramento, and it engenders huge resentment from the local governments. In the biggest recent battle over housing elements, Southern California cities fought a two-front war against the state and against their own regional planning agency, the Southern California Association of Governments.

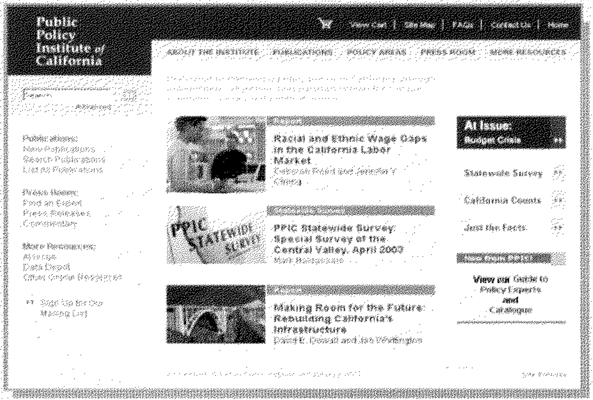
In that case, the state Department of Housing and Community Development agreed to reduce the five-year housing target for the six-county SCAG region from 630,000 new housing units to 500,000 units. But that wasn't enough for many Inland Empire cities, who still felt the powerful coastal cities in Los Angeles and Orange counties were dumping too much responsibility for housing on them. SCAG was unsuccessful in lobbying the state for an even lower housing target — about 437,000 units. The result was a confusing lawsuit in which a Riverside County judge ruled that both SCAG and HCD were at fault. In a ruling last March, the judge urged all parties to start planning for the next round of housing allocations.

Of course, all this paper shuffling may not do much good. A recent report from the Public Policy Institute of California, an independent think tank in San Francisco, found there is little difference in housing production between local jurisdictions that have adopted a set of housing goals and those that have not. (State officials disputed the results.) Researcher Paul Lewis concluded the big problem is that the purpose of the housing element is unclear.

Originally, the housing element law was designed as a "fair housing" measure to force upscale cities to plan for housing that was affordable to different income groups. But since residential development in the state tanked during the early 1990s, the state has increasingly attempted to use the housing element law as a lever to boost supply. Thus, for example, the state has pressured local governments to identify and rezone land that could be used for apartments and other high-density housing.

Overhauling this process has been on everybody's agenda in Sacramento for more than a decade, but because of the political stalemate it has never happened.

The Public Policy Institute *of* California Announces Its New Website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Governor Davis signed a bill last year making it easier to build "granny flats," but cities have resisted. Photos: Bridge Housing

After meeting with a group of lobbyists recently, Assembly Housing Committee Chairman Lowenthal introduced a bill this year (AB 1158) that contained a series of changes to the housing allocation process. The bill would give more power to regional planning agencieis — rather than the state — to determine housing need, and would also convert the housing allocation process to a six year-process so that it runs on the same timeline as transportation plans. But that bill, which drew support from local governments and opposition from housing advocates, is not going anywhere. Lowenthal decided to ice it for 2003 and move it forward again in 2004.

Increasingly, frustrated legislators and lobbyists are looking for ways to end-run the state's core housing policy and find other ways to stimulate housing production. These bills may stall as well because most of them are also aimed at local government. In particular, they are aimed at prohibiting cities and counties from turning down proposals for new housing developments when those proposals conform to the planning policies that those cities and counties have already adopted.

In 2002, Governor Davis signed AB 1866 to make it easier for individual homeowners to build "granny flats" — also called second units — which are small rental dwellings in neighborhoods of single-family homes. The measure requires cities and counties to approve second units automatically when they comply with the local government's housing plans.

Housing advocates hailed the passage of the bill, but it has had a predictable result: Local governments are now toughening up their second-unit ordinances. Second-unit ordinances have long been a staple of local housing plans, and on paper, approval has usually appeared easy. But in the wake of AB 1866, cities are requiring that the property owner live in the main unit and provide offstreet parking. The new city of Goleta, near Santa Barbara, is proposing that granny flats cannot be located within more than 200 feet of one another — meaning, for example, that next-door neighbors could not both have granny flats. The city also wants to apply the new ordinance retroactively to hundreds of "bootleg" units created prior to its incorporation.

As a follow-up, Assemblyman Darrell Steinberg (D-Sacramento) has introduced a bill this year (AB 1160) that would eliminate "unreasonable" second-unit standards. But that bill has stalled as well.

Of course, granny flats are never likely to make up a large portion of the overall housing stock in California. Other ideas are floating around that would take aim at bigger fish. By far the most controversial is SB 744 by Senator Dunn, the former chairman of the Senate Housing and Community Development Committee. Dunn's bill would create a state appeals board that would be empowered to reverse local government decisions on some housing projects. Dunn's idea is that the committee could overturn a local decision if that decision was unreasonable and inconsistent with meeting local housing needs. The committee could also modify or remove a city or county's conditions of approval.

Dunn's idea is not new. It has been used in some other states and has been floating around Sacramento since the late 1980s, when then-Assembly Speaker Willie Brown (D-San Francisco) was considering a major reform of local government structures. Like most housing legislation this year, however, SB 744 has become a "two-year" bill.

A former trial lawyer who has set his sights on a run for the attorney general's job in 2006, Dunn has been aggressive in pushing legislative ideas that might increase housing production. Dunn has been willing to target both the private sector and local government. As committee chair, he was instrumental in brokering a deal last year to limit construction defect liability on condominium projects — a problem that everyone agreed was harming the ability of the building industry to construct multi-family projects.

The insurance carriers have been slow to re-enter the California market, however. Dunn has made noises about holding hearings in Sacramento, forcing the carriers to open their books and explain why they are not insuring condominium projects, but so far nothing has happened. In the meantime, housing production has inched upward, even as prices have continued to go through the roof.

There are many other ideas floating around Sacramento, some of which seek to reward local governments financially for approving new residences rather than forcing cities and counties to do it. But with the large state budget deficit, these efforts too seem ill-fated. Even as the average home price tops $350,000, it seems that Sacramento will not solve the housing crisis soon.

William Fulton and Paul Shigley are the editors of California Planning & Development Report *(www.cp-dr.com). Comments may be sent to* **comments@californiajournal.com**

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